Schroders

Investor day 2019

Peter Harrison

Group Chief Executive

When we did our first one of these in October '17, I said to everyone in the room if you've come here to update your models, you've certainly come to the wrong meeting and I won't be offended if you want to leave now. The purpose of this is not to try and give you an update on financial models; it's to try and help you understand our business. We've talked a lot about strategy. I have a very strong view that quarterly reporting does not reflect the dynamics of our industry and that strategy is massively important. So the purpose of today is to try and talk a little bit more about some of the other aspects of our business that we don't get a chance to do on a regular reporting basis.

The last time we spoke about things we spent quite a lot of time on our core business in terms of how are we going to increase client longevity, new markets we're going to go into, new channels were opening up, new products we were launching, use of seed capital, etc. The transcript of that is still available and we're certainly happy to take questions on that later on.

The purpose of today is to look more at the consumer side of our business. This chart is familiar to anybody who looked at our results and we've spent quite a lot of time on that middle box and we talk about targeting client longevity. In fact targeting client longevity is important across every aspect of this, but probably no more so than in the consumer box and that's really the purpose of today's meeting.

For me, there's a funny thing about our industry. We obsess about the thing which matters most to us, which is investment performance. It's written on everything, on every tin. It's a bit like going to book a train time, if you book a train, all the websites do is they don't tell you anything about the experience, they just tell you about the times of the trains. If you book onto a plane website it just tells you about what the price of a plane ticket is.

Our industry just tells you about the performance of the product and the irony of that is that to the end customer what they're much more concerned about is, do they get a good outcome, do we meet their needs - and yet our industry just wants to talk about one thing. So to my mind, getting access to solving the customer problem is a much, much bigger part of thinking than just saying how many basis points of alpha are you going to be put on the tin - and that's a fundamentally different thing.

The second is the dynamics of this consumer box are fundamentally different. The longevity of a client on that side of the page is somewhere between 10 and 20 years. Look after them well and you'll get a very, very high retention rate. The longevity of a client in the middle block on average is four years. So compound growth is much, much easier to achieve if you've got no hole in the bottom of the bucket.

The idea today is to spend a little bit of time looking at different aspects of how we're approaching the consumer business and really I've lined up a group of our senior managers, because it's much better that you hear it from what they're doing in different parts of the business than hear it again from Richard and I and I'm much keener that they should have the stage.

Just going through quickly, first of all, Peter Hall will stand up in a moment. Peter joined us from running Tilney's for Permira at the start of the year. Peter has had a long, long career in wealth management at Barclays, running UBS and most recently at BestInvest Tilney. And he's in a good position to give the overall view of all of our wealth businesses.

James has recently taken on - actually not quite taken on because we haven’t quite gone live, but the Lloyds joint venture. James used to run our UK intermediary business, knows the UK market incredibly well and will talk in more detail about how we're going to drive value and the dynamics of that business.

Susan runs our Singaporean business, but is also leading the charge on mass personalisation for us across the Group. Been with us a long time. Singapore, as you know, has been a fabulous success story for us in many ways and so having her here, talking about the digital age is fantastic.

Graham may be familiar to many of you, he's our CDO, Chief Digital Officer, and will talk about how we're digitising the business.

And then finally, Jessica Ground is going to come and talk about sustainability and you think what's that doing there? Actually I think it's critical because if you think about the point I started with, the notion that all we've done is sell performance, what matters to people increasingly is how we go about generating the returns. And the mass personalisation of that gives investment products a meaning. So to my mind, the coming together of sustainability and performance becomes a much more powerful thing that just selling raw numbers. So how are we going to integrate that in with a data driven mindset is going to be critical to that broader consumer piece.

At the end of every section there'll be an opportunity for questions. Richard and I are going to be here throughout to take any questions, but unless there's any at this stage, I'll step out the way and let Peter take over.

Peter Hall

Global Head of Wealth Management

Thanks very much, Peter. Good morning. As Peter mentioned, I joined Schroders as Global Head of Wealth Management just back in January and I joined because I believe that we have got a unique and really exciting opportunity in wealth management. So it's great to have the chance today to talk about where I believe that opportunity lies and how we're going to capture it.

Peter mentioned the Group strategy of getting closer to the customer and that hinges upon the relative attractiveness of the wealth management business. So if we sort of put it side by side with asset management, wealth management is projected to grow significantly faster. As Peter mentioned, it has much higher longevity, so for us in the Schroders Group the longevity within wealth management at 12 years is almost three times the level of asset management.

Revenue margin's significantly higher, so for us, 61 basis points as opposed to 45 basis points. But importantly also, because we're closer to the customer and because the customer is much more sensitive to issues of trust and relationship and service, we believe that the revenue margins there will be significantly less vulnerable to margin compression. So overall, an attractive space for us to focus on and that's what lies behind the Group's strategic focus.

Within that attractive sector, we already have a strong franchise in the UK and funnily enough, coming into this from the outside, I think a lot of people outside Schroders don't appreciate quite how strong our franchise is. So targeting the charity space and the high net worth we have Cazenove Capital. Targeting the affluent segment - and broadly speaking by affluent there we mean individuals who have less than a million in investable assets. We have Benchmark Capital and then later in the year - and James will talk more about this later - we will have the joint venture with Lloyds, which is going to come under the Schroders Personal Wealth brand.

Put all that together and we will be looking after £65 billion of client assets with over 700 advisers. And if you sort of benchmark that within the industry and you think about how does that stack us up against advised wealth managers, then it really puts us in the UK as number 3. So behind Quilter and behind St. James's Place. So a strong franchise and that franchise is generating significant profits. So look at last year, combine the Schroders Wealth and the Benchmark businesses, we made pre-tax profits of £93 million. And then on the right-hand side, what we are showing there is a notional 50% stake of the 2019 proforma numbers for the joint venture, which comes to £17 million. So it gives you an idea of the totality of the profits that we'll generate.

Importantly, while we're generating significant profits, we are also achieving a turnaround in growth. So I think Richard shared the left-hand chart with you at the results presentation and what you can see there is the annualised net new revenue in the past couple of years having a good upward trajectory. And what's driven that is on the right-hand side, net new business as a percentage of assets, which certainly in my mind is probably one of the key metrics for growth. Go back to 2015, 2016, we were pretty much flatlining, go to 2017, 2018 and we were achieving growth rates there of 3.5% to 4.5%. So a strong franchise, a franchise generating significant profits and a franchise achieving a turnaround in growth.

Looking forward, key question, what's going to set us apart? What is unique about what we do? From my point of view, there are five things that I would focus on. The first one is brand, we have a couple of fantastic brands. Our research shows that the Schroders brand is ranked number 2 in the retail space in the UK, but with the top ranking for trust and innovation. And if there were two things I really wanted to be top ranked for within wealth management, it would be trust and innovation.

And then Cazenove is perceived as a brand which is respected and exclusive, so we've got great brands for each of those segments. And to be honest, I think it's important to have differentiated brands for each of those segments, because the brand stretch is too great in terms of trying to cover that broad spectrum with solely one naming convention. Secondly, we have unique sources of new business growth and importantly we will have, through the Lloyds joint venture, access to one in five affluent individuals within the UK.

We've got fantastic technology in Benchmark. Again, I'm not sure how much people appreciate the strength of that, but recently we were awarded the best UK platform position for that capability, which is going to underpin our moves in the affluent space.

Through Schroders we have a multi-jurisdiction capability, so we can support client booking, whether that is in the Channel Islands or it is in Switzerland or it is in Singapore. Increasingly important amongst our wealthier clients where internationally, of course, we are in an environment of a growing level of political uncertainly. And then critically underpinning the whole thing we have the global institutional investment capability of Schroders.

Those five assets are great strengths and honestly, I say that coming, as Peter said, from having spent 20 years in leadership roles at the main competitors of us elsewhere in terms of UBS Wealth Management, Barclays Wealth Management and then a private equity business, Tilney, where we grew the assets from £4 billion to £24 billion in three years.

So a very strong franchise, some great strengths. What I'm now going to do is I'm just going to talk about each of the businesses and what are the specific opportunities in each of them. So let's start off with Cazenove. Cazenove has got some fantastic franchises to build on. We are literally number 1 in the charity space, which as you'll know typically falls within the wealth management arena, and we are looking after £6.6 billion of assets there. We have a great family office franchise and we are looking after 101 families who together have £10.6 billion of assets.

And then within this space we have a great network and reputation with private client lawyers and accountants, I sort of mean the Withers and the BDOs of this world. And that's really important because in this space they are sometimes the trusted relationship and they are therefore an importance source of referral business for us. And every industry has its own awards, the one award which you want to win in wealth management is the PAM Award. Why? Because it is the one which is voted on by those private client lawyers and accountants and they voted us the best wealth manager for the high net worth segment earlier this year.

But we've also got a couple of very new and interesting opportunities in the new wealth segment, so entrepreneurs, again a great franchise to build on from Lloyds, where they look after literally one in four SMEs. And then the professional segment, to some extent it's a very natural space for us, it's a space where the Cazenove brand, I think, really resonates. And not surprisingly, it's a brand where we again win the Magic Circle Awards because of our perception.

Great opportunities in Cazenove, different set of opportunities in the joint venture Schroders Personal Wealth. So here we are really focusing on the opportunity in the affluent space, where there is a growing need for advice, particularly around pensions. Why? Because of the freedoms in pensions and the complexity, to be honest, of pensions and James will talk a lot more about this later. And how are we going to be successful? Well we have deliberately set this up as a standalone venture with an independent board. Why? So that we can take an entrepreneurial approach to it while drawing on the fantastic strengths of the two parents.

It's going to be open architecture so it can draw on the fantastic investment expertise of Schroders, but actually will be free to identify and offer the best manager in each sector or in each theme for its clients. And then really importantly we'll have a challenger mentality and, in particular, look to leverage innovative digital opportunities. And it's obviously early days before the JV has been set up to elaborate on what some of those opportunities could be. But I think to give you an interesting insight into the sorts of innovative ways to leverage digital, both in terms of customer proposition and in terms of business models, Susan is going to talk about some really exciting stuff later that we are doing in Singapore.

So the third business is Benchmark, different opportunities again and here we've got a couple of opportunities. One is to provide and continually develop this leading technology to underpin the innovative propositions that we're looking to build in the affluent space. And then the second one is to represent a different but complementary channel to target the affluent segment through its award winning network of 250 financial planning advisers. So as you can see, exciting opportunities but very different opportunities across three businesses.

If we look back across the totality of what we have in wealth, what are the key priorities for us to maximise its value within the Group? So the first one is to strengthen organic growth further and as I look at that and based on my experience, there are four key drivers that we need to look at. The first one, of course, is recruitment of advisers and that takes two approaches. Part of it is homegrown talent and the second one is poaching the best advisers from our competitors.

And interestingly for me coming in, if you look at the senior advisers at Cazenove Capital, the vast majority of them have been with us for more than 15 years and started off as graduates. So actually we have got a really good record here of nurturing top talent.

The second one is freeing up capacity. This is an industry issue, you will all know quite how incredibly clunky and paper-based and archaic really the wealth management sector is and what that means is that advisers spend a whole load of non-value added time on stuff, rather than being with the client or focusing on new business. And I'll talk about another priority later in terms of using digital to liberate that.

Third one is culture, so I think within Schroders and certainly at Lloyds as well, we pride ourselves on a culture of real client care and very, very strong compliance. We need to hold that very precious, but we need to blend it with a sales culture and there I don't mean sales in a sort of dirty word; I mean sales in the sense of getting a deep understanding of a client's needs and offering top quality solutions.

And then the third thing is of course there's no point getting new clients through the front door and growing assets if we are losing clients through the back door. And so the last piece is about retention and we do provide excellent client service, we have very good retention stats. Our internal client surveys are very positive, but there are a couple of areas where we can improve our investment offering and by improving our investment offering we will improve our retention.

So that very much leads me onto the second key priority, which is offering truly institutional quality investment, drawing on Schroders' expertise. So through Schroders we can offer top quality segregated portfolios which are customised to the individual client, which are lower cost than a portfolio of funds and which, by definition, have much more investment story and content than ever can be brought alive through a portfolio of funds.

And actually I believe that within wealth management there is almost going to be a dramatic shift back now towards segregated portfolios of individual shares and bonds, rather than portfolios of funds. But not in the way that it was decades ago, with the old boy stockbroker getting tips from lunch, where actually people like us who can draw on truly institutional quality segregated management will have a fantastic advantage.

Second thing that we can offer is sustainable investing, I totally agree with Peter, it's absolutely critical and Jess will talk more later about the great expertise that we have in that area.

Third one is private assets, it's another strategic priority, it was the third pillar on Peter's initial charts. Georg Wunderlin, as you know, is joining fairly shortly to lead the charge on that and certainly amongst our wealthier and more sophisticated clients, there is a growing demand for private assets because of the liquidity premium.

And then last one is we are, of course, open architecture, as I mentioned, but where we choose Schroders as the best manager we are able to offer it to our private clients at an institutional rate.

Priority 3, digital, now digital I see in two ways. So the first one is the innovative customer proposition, leveraging digital which I mentioned earlier and Susan will talk more about later. The third one is digital in the sense of streamlining and automating what we do and within Cazenove we have kicked off a programme which is focusing on the two most clunky parts of the process, which are onboarding and client reporting and suitability. And what we're aiming to do through this digital programme is to free up 15% of advisers' time through doing that.

Fourth priority is Asia. Now I mentioned earlier that Asia represents about £3 billion of client assets out of a total of £8 billion of assets that we are looking after in our international offices. So by definition, starting from that base, it'll be a longer term play for it to create significant value within the Group. But we're fantastically well placed to build that value here over the long term and if you look at the approach that we're taking, it actually just mirrors the approach and the business model that we're adopting in the UK.

So in the affluent space we're partnering with banks, obviously in the UK it's the JV with Lloyds, in Asia it is partnerships like the one that we have announced with Maybank, which is literally the number 1 bank in Malaysia. In high net worth it is a matter of building a top quality team of advisers and you may have seen recently that we acquired an independent asset manager called ThirdRock.

The story there is very interesting, because ThirdRock was assembled a team of 28 individuals who were entrepreneurial, but who had each come from top large wealth managers in the region like Goldman's or Credit Suisse. So it has that entrepreneurialism, top quality advisers who had the confidence to go out on their own. But what was fascinating when we talked to them was how valuable they felt it was to join our Group, because of the strength of the Schroders brand, which is literally number 1 ranked in Singapore and Hong Kong and because of the strength of the institutional investment capability that I mentioned earlier.

And then the fifth priority is acquisitions and there I believe that we have a really good track record in terms of acquisitions. It's an industry, as you know, where that is often not the case, but I think that what we have achieved with Hoare's, with Benchmark, with ThirdRock, is very, very positive outcomes where we've done them for the right reasons and we're integrating them successfully culturally, as well as strategically.

What are we going to look for? We will look for acquisitions where we believe it gives us a core strategic capability that we haven't got, where it will accelerate our growth. We will not look at them where we do not believe strongly in the cultural fit, because obviously in wealth management that is critical. We will not look at them if we believe that it will not generate significant shareholder value and we will not look at them where we feel that in integrating the acquisitions we could not simultaneously drive the organic growth that we're looking for.

So those are our key five priorities. What is our overall goal? So our overall goal is to become a top 3 player across that whole spectrum in the UK and this in many ways is what is unique to us. You get strong players in affluence, strong players in charities, strong players in high net worth. We are aiming to be a top 3 player across charities, high net worth and affluent financial planning and doing it by leveraging on those unique sources of distribution, leveraging on those fantastic brands and leveraging on the global institutional capability. And the key measure there really is ultimately client assets and then within that, ensuring that we are looking after those client assets with a business model at an attractive cost to income ratio and with strong underlying organic growth.

But in many ways there is one financial goal just as important, or if not more important for me, is looking at this from the eyes of the clients. And the critical thing for us long term is to be known in the client segments that I mentioned earlier as our target strategic client segments as the people to come to, as the best people to help us, their trusted advisers. Because really that is what is a very emotional relationship, wealth management. It is all about trust and it is all about peace of mind and that is the sort of relationship that we're looking to build.

So I hope that's given you a bit of an overview on the attractiveness of wealth management. The strength of our franchise, I don't know whether it's surprised some of you, but I do think looking outside in people don't often appreciate it. Where the key opportunities are and then what our top priorities are going to be to maximise its value over the coming years. And now I'm very happy to take a few questions or pass them off to Peter, if anyone has any at this stage.

Q&A Session

Peter Harrison

Can we wait for a microphone down the front here? We're being recorded so for those online it will be a lot more helpful if they can hear.

Gurjit Kambo - JP Morgan

Hi, good morning, it's Gurjit Kambo, JP Morgan, just a few questions. Firstly, when we talk about Asia clearly it's a fast growing market but it's a relatively competitive market and obviously recruiting advisers there cannot be particularly cheap. How do you think about that £3 billion you have at the moment in terms of is that a profitable business for you at the moment? So really just trying to think about growth versus profitability within Asia, so that's the first question.

Peter Hall

Yes, so our Asian business at that level is profitable. I agree with you, it is a competitive market. I think what is it which makes us different, it is going to be attracting entrepreneurial talent. So these were the best advisers who themselves had left the Goldman's and the Credit Suisse's because they didn't want to work at what can be seen as large and rather heavy bureaucratic organisations. But then saw the benefit of being able to leverage our network, our brand, which is literally number 1 in Asia and our institutional investment capability. So we're going in there with a unique proposition and for me, the acid test was our ability to track those individuals.

Peter Harrison

I think what I would add is that we're very - taking a long-term view of this, that the compensation to revenue for that business is way higher than it is for our ongoing businesses in more mature markets. You'd expect that because they're not on scale yet. So actually acquiring scale and becoming that brand is a very important part of the long-term journey, rather than just saying we're going to run it on a low cost basis, be very profitable but not very fast growing. The opportunity is the growth.

Gurjit Kambo - JP Morgan

And just two sort of quick questions, one, are you going to have sort of an adviser school with Schroders and the Lloyds JV, or just broadly within Schroders?

Peter Harrison

I think James will cover that in a moment.

Gurjit Kambo - JP Morgan

Okay and then the final question for yourself is I know you've only been with Schroders for a short period of time, but obviously you've got a lot of experience within the wealth management industry. Is there anything in particular you've seen that was very positive at Schroders, or anything where you feel that Schroders needs to do better or improve their whether it's technology or other areas?

Peter Hall

The first thing that comes through incredibly strongly is the long-term view. To build a leading wealth management business you need an incredibly long-term view. I think that is absolutely core to Schroders and linked into the family ownership. Whether I have been at banking institutions or private equity businesses, inevitably there is not that kind of timeframe. The investment capability that we can draw on as wealth managers is fantastic and whether it is that segregated capability or private assets or ESG is amazing. The strength of the franchise in Asia is remarkable.

What excites me and what attracted me - and this is very much down to Peter's leadership - is while we are large, there is an entrepreneurial feel to it and that's exciting and that's absolutely critical for us to be successful. What do we need to do better? You'll hear a lot today about digital, we have big ambitions in digital. We need to do a lot more on that and we've certainly embarked in wealth on a significant programme there. And when you think about us as a challenger, I think that's one of the key areas where we can stand out.

Peter Harrison

Peter, I think, would have highlighted one other area when he first arrived, which we're addressing now. He chose his words carefully on private assets, but I think our growth rate in wealth has been hampered by a lack of a really good private assets offering for our high net worth clients. We're in the process of addressing that, but I think we've had years where we've seen long-term client money depart because we haven’t been able to plug that gap. So being able to have a good offering in that space has been critical and alongside digital, it's probably the single other good growth opportunity because it creates stickiness for clients as well.

Peter Hall

Exactly. Yes, Peter, absolutely.

David Wahi - Santander

Hello, good morning, David Wahi from Santander. Actually Peter, coming back to your comments on private assets, I was at the CFA conference yesterday and that's exactly what they were talking about as well. Family officers and private assets is basically where the growth is, so great to hear that.

And Peter, welcome to Schroders. What I would like to ask you is what does a customer tomorrow look like for you and how do you think you will acquire them? Will there be more in Cazenove or your mass affluent area?

Peter Hall

I think we're in a very fortunate position that we have lots of different opportunities. So within Cazenove we have - there are lots of opportunities for us to help entrepreneurs and business owners and at the moment there's a really attractive environment out there in terms of business sales and through the Lloyds relationship we have great access to them.

As you mentioned, family officers are an area, I think there are a lot of family officers at the moment out there which are perhaps of a scale, where it's questionable whether it makes sense for them to carry on doing it themselves. Well I mentioned we're looking after 101 families with over £10 billion of assets. We think we are in a very strong space.

And then James will talk more about this later, but the affluent space is a very interesting space because it's still almost dominated by a very, very large number of rather tiny IFAs. And there are an enormous number of individuals who need help in terms of their retirement and their planning and they don't know what they've got and they don't know what it's worth and they don't know what they need. And we have an ability to help them and help them in an innovative way as well, by drawing on digital channels. So what I like about our position is that there are a range of opportunities and we're not overly dependent on one.

Hubert Lam - Bank of America

Hi, good morning, it's Hubert Lam from Bank of America. Just one question on cost to income ratio. Your cost to income ratio is 68%, I'm just wondering what your target is over time, how long will it take you to get there and how many assets do you need to see significant improvement, because you speak of increasing scale but also I'm conscious of high operating costs that you have in technology, Asia, etc. So I'm just wondering on cost to income what your targets are for that.

Peter Hall

Yes, I think over the medium term we'd see the cost to income ratio at a similar level. If we look at the different drivers on it, on the cost side there are opportunities medium term through greater digitisation and through investment in the platform. But as you mentioned, obviously short term there are the investment costs associated with that.

On the revenue side, while we believe being close to the customer that our revenues are much more defensible, of course over the long term one would expect some element of margin compression. And then also as you indicate, the growth through hiring of talent has a bit of a hockey stick to it and therefore as one embarks on that programme, it can result in a short-term dip before a growth. So broadly speaking, if you net those factors out and you also benchmark us against the competition, I think that over the medium term that's the sort of level that we will be targeting. So if you look at the driver of value, it is much more on the growth side.

Peter Harrison

We've taken - as a Group really, we've taken a view that as these benefits come through, the key is to keep reinvesting it and keep running harder and keep investing more, because that becomes our advantage. If we can create a low cost digital platform for managing clients, that's a huge advantage, if we can bring in a new team. So rather than just running up a higher margin, we prefer to invest that back in the business for the long-term benefit.

There was a very interesting chart that Peter had up, for two or three years this business had been about integration and we hadn't seen any net new business growth. And then two years ago I remember saying at the analyst meeting, the growth in this business is unacceptable, we're going to move it to a growth footing. We've seen 3.5%, 4.5% growth come through subsequently and whilst that's not a forecast for any individual year, I think at the same time we've also made a step change in digital and you should expect that run rate of effort to reinvest back into the business to be an important part of the future.

Time for one more and then we'll move on to James and pick up any later. Any more? No, James, you're up. This to my mind is a very different change of pace, because we're dealing with the whole of market and much bigger numbers in terms of affluent clients.

James Rainbow

Chief Executive Officer, Schroders Personal Wealth

Good morning, thank you, Peter. We are here today at a very interesting time for the development of Schroders Personal Wealth, particularly as we're two and a half weeks away from the launch. So time is under - we're feeling a little bit of pressure in terms of time at the moment, but I think that's generally a healthy thing and a healthy situation to be in.

What I'd like to cover is three things. I think that this is a fascinating time to be entering this market and I'd like to talk a little bit about why. I think that the market is changing pretty quickly and I'd like to just talk a little bit about the background and the direction of travel in the market. And finally, I'd just like to talk about the steps that we're taking to create the new business and how you can think about that developing and evolving in the months ahead.

It's quite clear that when we announced this in October, we generated a really very significant amount of interest, both in the conventional media and on social media. Quite a lot of this we've been standing, I guess, on the side-lines being relatively amused about the fact that some of this has been news flow, but a considerable amount of this has been rumour and speculation, not all of which was true and certainly not all of which came from us.

But I think that it points to the level of just latent interest in entrance into this market and as I said, what I'd like to do first of all is just to try and figure out why. I think if you look at our target or our total addressable market, there are in the UK roughly six million people with investable assets of more than £100,000. And so what I'll talk about in a moment is how we serve those clients, but actually in terms of our forward-looking projections, I think it's quite fair to say that we are going through a significant societal change, where I think that six million people is somewhat understated on a forward-looking view.

I think if you think about how people are beginning to approach their retirements, they are working longer, they're phasing into retirement, there is far less reliance on defined benefit pensions. I think it was two years ago that for the first time in living memory the amount of income in retirement gained from a defined benefit pension scheme fell below 50%. And I think that's a huge trigger in terms of changing behaviours and changing the pattern of behaviours, as people think about their provision in retirement.

I think that Peter's already talked about the fact that pensions are a key focus for us and I think that this notion of people taking greater responsibility for their retirement, for their savings, will naturally drive people towards advice. At the point of retirement, with things like pension freedoms, this is an incredibly complex subject and it is an area where people, I think, feel acutely the need for help and advice.

It's quite interesting that in recent years the changes in pensions legislation has meant that getting a pension has never been easier. The measures such as auto-enrolment but also if you go to one of the direct platforms, you can open a SIPP in a matter of minutes. And I think what's fascinating there is that whilst you can get into one of these things, when you've accumulated wealth and you've saved and you're reaching the point at which you want to spend it, then it becomes incredibly complex. And that's not just for the people who are thinking about withdrawing money or retiring, but equally there are an increasing number of people who are coming up against issues such as lifetime allowance. And I think again, these are areas where you see the behavioural drivers towards advice growing all of the time.

There is the somewhat apocryphal quote from the US that 90% of children fire their parents' wealth manager on receipt of an inheritance. And I haven't been able to find where the data point for that is, but I think that what it does say is that as we think about money moving from one generation to the next and how that accelerates in the coming years, I think it's fascinating to think that there is an enormous opportunities as these assets are distributed and a new generation of people inherit wealth and look for advice and help with what to do with it.

And finally, I think if I was standing here as an economist, I would be telling you that this last data point is particularly bad news. But for an advice business, actually a concentration of people and a concentration of wealth at the elderly segment of our society actually points to the fact that again this is a really interesting time to be launching into this market for the first time.

Now having dealt with what I would describe as the demand side for our business, I wanted to talk a little bit about the supply side. Now there has been a gradual rebuilding in the number of advisers since the retail distribution review and I think that's generally a healthy sign. I'll talk in a moment about capacity for advisers, but I think about this in a fairly simple way, which is if an adviser has the capacity to serve roughly 100 clients, 26,000 advisers can serve 2.6 million clients.

And I think that if you start to put some numbers around what is colloquially known as the advice gap, I think you can quite quickly establish what that number looks like, and even if you did something material to push that capacity up, there is still a very large number of people who are underserved by the number of advisers that exist today. So I think that the - whilst I think that I would paint a picture of very strong demand side, I think that we do have some issues with supply as well.

This is compounded by the fact that, as Peter said, we are living in a world which is still a massively fragmented and micro industry for advice. With less than five advisers per advice firm, I think that this creates some really big, structural barriers to the industry and its future development. That's what I'd like to turn to next.

I think that the advice market today I would make a case for the fact that it is relatively young. I think that people will increasingly view the retail distribution review as a seminal moment in the development of what I would describe as our profession, and it really did create a profession I think for the first time, and a profession that can stand alongside the established professions of the legal and accounting profession on a similar footing with a similar qualification and professional standing. But it is at a very, very early stage in its development, and I think that we need to move quickly away from the narrative that your outcome from an advised client is the same as a direct client, and therefore the only difference is the fee you're paying, so please justify what that fee level is.

I think there's an increasing body of evidence, and I've cited some of it here, that the number - that the clients who actually get professional advice end up with a materially better outcome than those who DIY. Now, there are a number of reasons for that, but principally, the behavioural issues of buying the wrong things at the wrong time, selling out when you get nervous and there are market events that scare you, I've talked about pensions being complicated, so tax optimisation is critical. And then asset allocation being the other driver, I think that we as an industry and as a profession need to make a better case for the fact that this is really important and that we can make a massive, societal difference as we serve more people with the services that we have available today.

I think that the difficulty that we face, though, with very fragmented markets is firstly speaking as one voice. And the second is that in a fragmented market, we are dealing with - still dealing with an enormous amount of issues that drain our capital, such as increasing in insurance costs and in many cases just simply the availability of professional indemnity insurance is a significant issue that the industry faces. But equally, implementing regulatory change such as MiFID for very small firms is a huge burden.

What that does is actually limit the ability for us as an industry to grow a new generation of advisers, to really increase the availability of advice, because there are very few firms that can actually do that. The question earlier about whether or not that's a route that we're taking is absolutely fair and absolutely the right one, and we've made a very significant financial commitment to invest in a - I don't like the word academy, but it seems to have been coined by our industry. But an academy to train advisers, and we're in the process of hiring somebody at the moment to lead that initiative for us.

Equally, I think that as people evolve and as they think about how they'd like to be served in different ways, and Graham will talk about the technology implications of that, there's an obvious barrier with a very fragmented market for developing technology and customer experience in a new and meaningful way. And I think that is also something that is significant. It's something that we will be focussing very hard on.

Now, the second thing was about the structure of our markets and the direction of travel, and what you can see here is quite clearly the impact of RDR and moving away from a market that is based on sales commission and one that is based on fees. And you can see this clearly in terms of how businesses are valued and the importance that people are placing in the valuation of businesses in recurring fee revenues as opposed to commissions.

But I thought what I would do is just try and give you a flavour as to what that actually is in terms of what fees are looking like and how they're charged, and the next few slides are from a study of advisers that Schroders does every year and just specifically focussing on this issue for a moment. What you clearly see is that when we talk about fees generically, we are talking about a move overwhelmingly in this market to an ad valorem fee model where fees are charged as a percentage of funds under management, or funds under advice, mainly facilitated by platforms, but when we talk about recurring fee revenues, this is quite clearly the model that now dominates our industry.

In terms of the quantum, similarly, I think there's been a very significant shift here, where traditionally the advice fee model in a commission world was generally 0.5% a year of commission paid by a product manufacturer, and that's shifted clearly in terms of structure as I've described, but it's also shifted in terms of quantum, with advisers taking a greater share of the client value chain and have been moving through those fee levels. The average is today almost exactly 0.75%, but there are a number of different models, and you will regularly hear people talking about moving into a 1% world for advice.

And then finally, the other obvious lever in terms of creating value in an advice business is the average client that you're serving. I talked about capacity. I think advice is naturally a capacity constrained market. It's a capacity constrained model. Peter talked a little about how you can get some efficiencies in that model, but similarly, you can only serve a certain number of clients irrespective of how efficient your model becomes, and average client size is critically important.

Now, we've heard examples where firms in an extreme model are asking clients to find other sources of advice and to leave their business in order to increase their average clients and build capacity in that fashion. We think about it slightly differently, which is a barbell or a balancing approach to average client size, where on the one hand, you have clients who have accumulated wealth who are at the later part of their savings journey and probably decumulating and people who are at a much earlier stage in their savings journey, and this I think is where in many cases the pensions opportunity that Peter talked about is really acute, as people are accelerating into saving and into their retirement. But it's a model that we look at, and it's a metric that we focus on in a very significant way.

The final part of the Schroders research here was the perceived impact of technology, where advisers are clearly telling us that they feel that technology has a very significant role to play in their business, both now and in future. I think that where if you ask advisers where they're thinking about this and how they're thinking about it, it's much more in the area of process efficiency and allowing them to serve more clients and removing - Graham talks a lot about friction, but it's removing friction. So if you think about not in financial services, but you think about the experience that you have if you shop with Amazon or you take a cab with Uber, a loss of that focus is about removing that friction, making the process of getting the service you want easier.

I think that there is another - a lever or another opportunity here, which is about improving customer experience beyond process and then simply how we think about our business model evolving in the future. But I think as we start thinking about the business that we are building today, I think - we're thinking about it in three distinct steps.

Peter talked about the value of a personal relationship. I still think that advice is, at its heart - it's about a deeply personal relationship between two people. If you ask clients what they value most in their relationship with their adviser, it is always the time that they are able to spend with their adviser. It's very rarely about anything else, and I think that making sure that we value that, we invest in our people, we invest in our service standards, we get advice into the hands of people where they live much more readily I think is something that is critically important to the future of this business.

I talked about technology, and I think as we move to the Benchmark technology, there is an obvious dividend that we will have there in terms of process efficiency, which is using the Benchmark CRM and adviser-facing technology, and there is an obvious client experience dividend through the Fusion platform and access to your investments online really for the first time for many of these clients.

But I think in terms of technology and how we think about the future developments of our business, we are already thinking about that and how our model evolves. And two obvious examples there are with a partnership with Lloyds, it would be surprising if I didn't talk about the tremendous opportunities that are presented by open banking and the ability to integrate your cash, your savings and your investments for the first time, and we are already working on that. But equally, the thinking that we're doing about how people choose to be served in future.

We already have a direct or hybrid capability within our business, which is designed to serve people who don't want or don't value a face-to-face in-person relationship but still want to talk to somebody, and they choose to be served by phone or by Skype or something of that order, and I think that that today is a very small part of our business. But as we think about and we test new ways of doing business and new ways of thinking about our business, I think that's an area where we will keep coming back to and we will keep testing.

Finally, I think it's really important that we build solutions and products that are straightforward, that are simple, good value, and meet the needs of our clients. And how we're thinking about that is in four boxes. I think it's really - it's very, very important to me that this is an entirely transparent model, so we will - we haven't announced these fee levels yet, which is why you don't see numbers on these, but as soon as we do, we will publish them on our website. We will make them absolutely available to anybody who wants them and to be very clear about not just the prices that we're charging but the service that we're providing in each of these areas.

Broadly, though, the initial advice relationship - the initial advice that you get has a range of services and has a fee attached to it. I've talked about on-going advice already. Discretionary fund management is simply around arranging your investments and making sure that your investments remain on track and aligned with the goals that you've set with your adviser and the risks that you are prepared to take, and then platform is where the Benchmark technology comes in and the costs for custody and platform services.

But it's critically important to me that this is done on a principle of transparency and openness. There is a fifth box which will join this in the coming months which is about funds, and I think there is a significant opportunity where we can launch our own Schroder Personal Wealth branded funds. As Peter's already said, it's done fully on an open-architecture basis, but I think that there is an opportunity to build and design our own funds to meet the needs of our customers, but I think that there is also a commercial opportunity there as well.

Now, finally, just about the steps that we're taking to build this business, the programme team that's been created by Lloyds to help us to do this has been incredibly well resourced, and the commitment that they've shown has been really fantastic. We are approaching this first of our five transition steps at the moment where we launch the business, where we transfer the people and client relationships into it. Quite quickly after that and after a fairly intensive period of training, which we've already started, we get new technology in July when Benchmark comes online, and then I've talked about the launch of funds which are designed to follow that, and we have got an application with the FCA to do that at the moment.

Then the last stages are more to do with when Schroders take their stake later this year and when we are fully operationally standalone and we've exited the transition service arrangements that we have with Lloyds which support the business in its first instance.

So I'd like to say thank you very much for your attention. I think this is - I would reiterate this is a really exciting time to be launching this business, and I think we have a really amazing opportunity, and if you have any questions, I'd be delighted to try and answer them.

Peter Harrison

And possibly the most lurid colour you could imagine.

Jonathan Richards - KBW

Good morning. It's Jonathan Richards from KBW. A couple of questions from me. In your opinion what segment of the market do you think is least served with respect to the advice gap at the moment and how are you positioning the Schroders business to take advantage of that? Secondly, when you think about client evolution throughout their lifetime or earnings period, how are you guys thinking about handoff between different brands, different buckets, whether they start at 100,000 and move up to a million, and then how are you thinking about fee harmonisation between the different brands, and I guess alongside of that, adviser continuity, because it is, as you said, a very personalised business. And if maybe you started with someone at Schroders-Lloyds and all of a sudden you're now a capable Cazenove client, how are you guys thinking about managing that?

Peter Harrison

Do you want to take the first one? Peter will take the second.

James Rainbow

I think that how this evolves is really interesting, and Peter and I have spent quite a lot of time making sure that when we're thinking about client segmentation, when we're thinking about the evolution of our client base, we're doing it in a way that first and foremost makes sure that we put the right products, services and solutions into the hands of our clients at the right time for them.

Now, I think that if you look at the business today, we've said that our target market is £100,000 to £1 million, and I think based on our average client size, that remains absolutely right and absolutely relevant. We actually serve quite a lot of clients today who are above £1 million, and I think that where the thinking we've done is to say, well, actually, if the services that we're providing within Schroders Personal Wealth remain suitable for them, there's no reason why they can't absolutely remain where they are. But increasingly, as you move up that wealth curve, you end up with a client need for - the client just gets more complex. They have more bespoke requirements. They have more bespoke structuring needs, and that's a business that we don't intend to be in, and it's a business where I think we've talked about a two-experts approach, where we can bring the expertise from Cazenove - not to break the link with your adviser, but I think to ensure that you're getting the best of both worlds.

So I don't think there's in here, if you like, a dis-synergy or where we're breaking links, but we've felt acutely aware of the fact that we need to make sure that we're putting the right things into the hands of our clients at the right moment.

Peter Hall

Yes, I absolutely agree with James. This has to be driven by client need rather than a rather arbitrary level of investable assets. But I think we're building a very, very good relationship between the two businesses, and to give you an example of that, there was on the Lloyds side a fairly high book of clients, about £400 million, around 300 individuals, and over the past couple of months, we have transferred those over to Cazenove, and we've double headed the client meetings working together, and it's been an incredibly easy and seamless approach, where we have hung onto I think 98% of those, and a couple of them chose to stay behind.

So I think that, as James says, there comes a point where a client need may be better met - so for example, access to private assets or a customised, segregated portfolio, in which case we're in a very good place to do it. Quick view on your first point is that inevitably I think when people talk about the advice gap, that is very much at the mass affluent space, isn't it, and so this is very much in the space where sometimes individual clients at that level feel as though they are not being looked after by their existing adviser because they're not profitable enough.

In that space, obviously, the ability for us to provide top-quality care profitably through the sorts of hybrid solutions that James is talking about is the approach, and to be honest with you, as I look at competitors, I don't think there's much out there doing a good job in that space.

Peter Harrison

I think if you go back on that chart, pre-2009 in terms of the number of advisers, you get to numbers of 80,000 and 90,000. Now, you can argue about their level of qualification, etc., but the world was very different asset a different time, and as Peter says, it's that segment which has suffered the most. So next question?

Gurjit Kambo - JPMorgan

Hi. Just in terms of the point you made about fees, adviser fees, potentially moving to a new world where we get to 100 basis points or so for adviser fees, is that at the expense of the asset management fees coming down, so you can position to a client that the overall cost for you is the same, but we're taking more but we get a lower product? So that's the first question, and then second one, just around integrated flows within the model, how are the advisers incentivised? And if you have an integrated flow from the start through to the end, are they incentivised at a high rate?

Peter Harrison

If I could just touch on the first, part of the whole purpose of this strategy is that asset managers typically take - have taken 25%, 30% of the value chain and that has come down. So post RDR, the windfall to the client, has not been there, but James, do you want to pick up the story?

James Rainbow

Yeah, and I think we talked a lot about the fact that there's been this - if you like, this inversion of the value chain, where traditionally, if you were a manufacturer, you set the price through the chain, and then of course what effectively the RDR has done is flipped that on its head, and that's really important. I think the - we've been really clear on incentivisation, but we are not moving into a sales culture, and I will fight until I've got the last breath in my body about the fact that anybody who's challenging me that this is some sort of return to a 30-year-old model of bank assurance and stuff, I will reject outright and wholeheartedly.

I think that we are talking about incentivising people to do a great job for their clients, irrespective of the services that we need. Now, I also - I think that the notion about an integrated model is one where I think it's one size fits all and you must access all of the touch points that I put up on the chart, and again, I think that's absolutely not the case. So whether it be a handoff to Cazenove, but equally whether or not a particular service is right, suitable and appropriate for a particular client, that's absolutely critical to our mind and our model. I think that the opportunity as we see it is more can we build the individual range of services which are individually described and individually priced in order to make sure that where we have client needs, we're capable of meeting them within our group rather than talking about something which is very siloed and very functionally aligned as to a single solution.

Peter Harrison

There's one piece that was missing from James's presentation, and you'll hopefully understand why, is that because we haven't gone live, the detailed financials that you would hope to have to model this out were not there, and Peter gave a small snapshot. But it won't surprise you that the number of assets per adviser, the flow rate through the adviser population and translating that into new business and the number of touch points coming out of the Lloyds Banking Group are at very low levels, and part of the normalisation of this, as well as putting in new technology and new rate card, is also driving the efficiency of the existing business.

We can see a transformation in the profitability of the business just from doing that before one starts doing these other things, and that's why that - it's going to take a year and a half to replatform to get it right. After that, then it starts to get exciting, but I would hate you to go away from your models and think, this is easy. We're going to put all the numbers in for next year and the year after. The opportunity here is five-year material EV creation, but it's not next year. Sorry, it’s on its way.

Arnaud Giblat – Exane BNP Paribas

Good morning. Arnaud Giblat from Exane. One question, please. Aside from the share of profit for Lloyds, are you incentivising Lloyds in any way to send over clients?

James Rainbow

We have an agreement in place, but there's no incentive to do that, and it was very clear at the outset that we would not do that in order to make sure that the - again, this was about meeting client needs rather than meeting numbers and targets. So there's no incentive in place other than the fact, of course, that we would hope that where there's an alignment of interest, simply because Lloyds have the ownership stake in this business and they like Schroders clearly want it to succeed and to flourish.

Peter Harrison

If we could just take one last question and we'll move on.

Hubert Lam - Bank of America

Hi. So it's Hubert Lam from Bank of America. Two questions. Firstly, on client advisers. For you to get to where you want to be, what do you see as the mix between hiring people and home-grown talent? Secondly, in terms of hiring and poaching new people, what's the typical cost of poaching good advisers, and has that changed over time?

James Rainbow

So in terms of mix, we've got targets for both, and they are blended. I think that we've talked about I think some fairly ambitious targets for our academy, but I think it will take - to Peter's point, it's going to take a little time to set that up and to get the wheels turning. And equally, where adviser talent is available, then I think that we will be an attractive home for it, and certainly the level of interest, just latent interest that we generated, would already indicate that we've got a lot of interest in people coming to join this business.

As an example, just an anecdote, which is an non-advice role, but we put an advice - sorry, we put a role into the market last week, and we've got 88 applicants for it, which I think is a relatively unusual position to be in and indicates the level of interest that we've got, and we've got a lot of interest from advisers as well.

Peter Harrison

Schroders has the number-one brand in the advice market, so if you're an adviser, this is not an unattractive venue.

James Rainbow

I think in terms of cost, to be honest, there are pockets of really hot concentration where it's expensive, and where we're standing today is where it's most acute, but there is a massive geographic dispersion in terms of the cost of advisers, and equally, the competition for those advisers. I think that where we've baselined our compensation and given that adequate flexibility, I think that we've got enough in terms of making it financially attractive but also the other soft factors to make this an attractive place to come, whether or not you're in a place like the middle of London or somewhere else in the UK.

Peter Harrison

I'm going to stop it there and ask Susan to pick up a little bit more on the technology. Thank you, James.

I mentioned earlier, Susan has grown for us, over many years, the leading business in Singapore, so I'm delighted that she's taken up the challenge of now transforming the consumer experience around the world.

Susan Soh

Country Head of Singapore

Well, good morning. I am very privileged to be representing Asia to share with you some of the very exciting digital pursuits that we are undertaking in our part of the region. But before I get into that, I would like to give you a quick overview of what our business in Asia looks like. Our footprint in Asia is one of the best in the industry. We are represented across eight countries in all the major financial markets in Asia, and if you include our joint venture with Axis Bank in India, then we are in nine countries in Asia.

Over the last five years, we have grown our AUM at a CAGR of 7.8% to reach just under £91 billion, and last year, we contributed as a region £477 million to the group's revenue. Our investment expertise in investing in Asian markets has a very long track record of over 40 years, and we are well rated by consultants in our region.

We employ over 900 staff in the region, of which 12% are investment professionals. Over the course of last year, we did two transactions and entered into one strategic partnership. The first transaction is that we took a strategic 20% stake in the digital technology, wealth technology provider called WeInvest. Now, the rationale is to enable us to broaden our service offering through our distributor clients who are actively building up their digital advisory tools.

The next is that we signed a strategic partnership with Maybank. Peter Hall has mentioned about that. Maybank is the largest banking group in Malaysia. Out of every 10 Malaysians, there will be seven Malaysians that will have an account with Maybank. In the partnership, we not only are providing the regular investment funds and the DPM portfolios from Cazenove to be distributed by Maybank in Malaysia. We are also working with them to deliver a B2B2C digital wealth advisory platform targeting their Islamic and conventional customer deposit base. Now, the third acquisition is ThirdRock, and Peter has mentioned the rationale for it, so I will just skip it.

Next, I would like to share with you the very fast-evolving landscape in the financial ecosystem in Asia. First, this technology is not new to any part of the world. The digital revolution is very much enhanced by the mobile connectivity network and the extensive availability of data. So across Asia, we are seeing a lot of tasks being automated and also business models evolving, so the financial ecosystem is not spared.

Next, Asia is home to more than 800 million digitally very savvy millennials. This is a group, or a generation, that thrives on global connectivity and is very demanding of the immediacy of service offerings. Now, in investing, they are very cognizant of cost comparisons, and they would also want to express their individual preferences, such as their support to impact and sustainable investing. They also have a very progressive attitude towards transacting and they would also demand positive user experience.

Also, across Asia, our regulators are recalibrating their approaches to support digital technology and FinTech solutions. This is because they want to actually have better and more efficient choices for the consumers. So we saw the sprouting of a new channel of distribution in the form of robo-advisers, and just before I left for London, the Hong Kong SFC has announced the approval of two digital banking licences, one to Alibaba, and the other one to Tencent.

Now, you know that these are the two institutions that have created the momentum for digital adoption across Asia, and they are now setting their sights in providing digital banking services and wealth advisory services. Although currently they are only managing money market fund, and I'm sure you have heard of the world largest money market fund called Yu'e Bao, managed by Alibaba, now in time to come, as they acquire more clients and they learn more about wealth management, they will be making - they can be expected to make a greater impact.

Additionally, the regulators across Asia are also talking about open banking. Singapore and Hong Kong have already announced their open API framework, and Japan, Australia, and Korea are set to follow. Now, open banking will envision an environment where open flows of data permitted by customers can be aggregated. This will potentially lead to increased competition and also the demand for more personalised services.

So our incumbent distributors are all reacting to this. What they have been doing is that they have been building digital wealth advisory platform to enhance their client servicing and also to scale into segments of their clients that are currently underserved. On top of that, for their RM channel, which is the relationship managers - in Asia, we call them RMs rather than advisers - for their RM models, they are also building digital tools to help the RMs become more efficient, so that they can move up the value chain of wealth advisory to focus on discussing life goals and retirement planning rather than on transactional sale of investment products.

And with open banking, the banks are also exploring tools and solutions to help them offer personalised services to the end customers. So how should we as asset managers reinvent ourselves to remain relevant in this digital age? Now, this is the reinvention journey that we in Asia have set for ourselves to develop a strategy for the digital age. First, we started off by looking at enhancing our own internal productivity using technology, so we were the first in the group to actually roll out RPA, robotic process automation, to automate the repetitive processes of our daily work life, and this is to free up resources to be able to focus on doing digital products.

Next, we started to identify what are the technological capabilities that we will need to actually help our distributor clients transform? We saw the need to actually have a wealth technology provider, and that's why we took a stake in WeInvest. And we started to look at the value chain of wealth advisory and identify interesting points where we can develop digital tools to help enable our distributors. So we started to develop a chatbot. We're in the process of developing digital training, and we are leveraging on the group's InvestIQ, which is a client profiling tool to actually offer to our distributors.

And finally, if platforms are proliferating, it actually opens up an opportunity for us to provide solutions to this platform, so we are learning to transition from a product provider to a provider of advisory solutions. And through this reinvention journey, this is what we have built up in terms of a service offering framework for our clients, and this is on top of the strategic investment capabilities that we already have. So the first is platform as a service offering that we can offer to our distributors, and then advisory as a service offering, and finally, in the world of open banking, we will be innovating AI tools to be able to continue to enable our distributors in that environment.

And with this service offering framework, we proactively go out and engage our distributors beyond the B2B relationship of a product provider that we already have with them, and in so doing, we are able to develop a B2B2C relationship with our distributors, and that would actually enable us to create a longer-term and more sustainable relationship with them.

Now, these are the service offerings that we can offer to our distributors in terms of platform building. WeInvest, as a digital technology provider, it is able to provide our distributors with front-end account opening or client onboarding, even to the point of execution for our distributor clients. They are also able to build digital robo for distributors who want to actually build self-serve models, and at the back end, they are able to build account aggregation models and also client reporting models for the distributors.

So we have been taking WeInvest around to see our clients, and they have been winning deals through us opening doors for them. The next is SchrodersGO, a chatbot that we built to enhance our client servicing for our distributors. Now, this is a chatbot that can actually offer real-time fund information and market information to the RMs.

And on top of that, the chatbot is able to compare our own fund information with that of our competitors, so we learn the word "co-opetition", cooperating with our competitor to win. And in the phase two of SchrodersGO, we will actually be pushing out the Schroders top leadership through that platform. Now, digital training is what we are currently developing. Now, if you imagine what the branch traffic will be like in this digital age, that has significantly reduced. Now, as part of our distribution agreement with our clients in Asia, we are obligated to provide training to the RMs of our distributors.

Now, if branch traffic has come down, the RMs are not going to be in the branches for you to train them, so we felt that by developing this tool, we will continuously be able to reach out to them and continue to own their mindshare in terms of the products that we are offering, as well as our obligation to train them. So on this platform, there will be investment one-on-one training, which we will be gamifying the investment concepts. There will be product training, and there will also be a facility or a utility that will track CPD hours. This is the continual professional training hours or development hours that is retired for the RMs to continuously review their licence every year.

So we have actually sounded our distributor clients out. They are very excited about this tool and are waiting in anticipation. Now, for solution to advisory as a service, the group already have more the portfolio service solutions which are risk based, and this is actually leveraging on, or built from, the strategic asset allocation and the tactical views of our multi-asset team, and this is open architecture. So the client can specify the universe and we can provide that more that portfolio above that universe.

Okay, Peter mentioned that in Asia, we are pioneering something called the mass customised solutions. Now, this is the life goal solutions that Peter is referring to. This solution will be able to cater to the changing life goals of an individual. As individuals, our life goals never remain static. It changes over the time, so this solution will be able to cater for that and adapt as an individual moves along his life journey. And if you think about the world of open banking, when data, individual data, becomes available, this solution will be able to take data and adapt itself as it goes along.

And on top of that, we are also building within this solution the ability to cater for individual preferences. Remember, I mentioned that the millennials love to actually assert their individual preferences, and this will be able to cater for it. And with technology, this will become individual portfolios for each client. Now, the group also have a client profiling tool called InvestIQ, which I think I mentioned earlier. Now, this is a client profiling tool that is built based on behavioural science. It is designed for investors to actually better understand their own personal investing instincts.

The tool was put on our Internet, and there were 40,000 tests that has been created globally, and it is available in 17 countries and 15 languages. And we believe that by offering solutions or advisory solutions as a service through our distributor, it gets us one step closer to the end clients, because we will be able to understand the end clients' needs better.

Now, as open banking comes about, we are all ready to be thinking about innovation in the space of AI and machine learning, so we will be leveraging our data science team and our robotics teams, and together with Graham Kellen, who will be talking about our other digital, group digital, pursuits, we will be looking at innovating in that space.

Now, how successful have we been in using this approach to engage our clients? Here are some examples. With InvestIQ, Ant Financial, which is a part of Alibaba, has taken up the tool, and three months into the deployment of the tool, 600,000 tests has been done. This is a fantastic branding exercise for our Asian business into the domestic Chinese markets. Additionally, Citibank in the region has entered into a partnership to actually take the tool and use it as a conversation starter with their clients.

In Singapore, a bank is currently seeking regulatory approval to use the tool as a complement to their traditional KYC in order to risk profile their clients on their digital self-service platform. And in terms of developing advisory solutions for our clients, I mentioned Maybank earlier. Maybank - in Maybank's case, we are developing a wealth advisory solution that is able to accommodate the Sharia restriction principles in the solution. And with another bank in Singapore, we are actually developing a life goal solution where they would be providing us with the data in order for us to actually customise.

For SchrodersGO, we have rolled out to 11 intermediary clients in Singapore, and the region is looking at deploying the tool on a broader basis, and for digital training, we are expecting to complete the development of the platform at the end of the year, looking to roll out early part of next year.

This is a sneak preview of what the life goal or mass customised solution would look like. It will combine the investment capability of our multi-asset team with a life goal forecasting tool and will be digitally delivered across to each individual clients. So we believe that solutions like this will truly put clients at the centre of the proposition. And in Maybank's case, we are using the preference model of the life goal solution to actually optimise the portfolio based on the prescribed restriction that the sharia principles have, and this would include a limit on leverage ratio, prohibited financial instruments, prohibited activities, purification is actually philanthropy and also, exclusion of interest-taking deposits.

Now, we believe that our approach or our strategy of a B2B2C approach will actually harness our strategic benefits over the long term. This will enable us to actually get closer to the end client by delivering customer solutions that are focussed on solving client-specific needs. It will also improve our longevity with our distributor clients, because we will be embedding our digital tools and solutions early onto their digital platform as they are building it. And internally, these tools will also help us improve our own efficiency, so tools like SchrodersGO and digital training cuts down a lot of our resources in terms of client servicing and training.

That's the end of my presentation, and I'm happy to take questions.

Peter Harrison

Thank you, Susan. There was quite a lot of work in progress here, and there's quite a lot of sensitivity about names and things, so you'll have seen lots of referrals to vague things that are going on. You'll understand that we don't want to put up exactly what we're doing with many of the distributors and name the distributors at this stage, but any questions for Susan?

Mike Werner - UBS

Thank you. Mike Werner here from UBS. Just a quick question on the InvestIQ platform that you have. When you provide that to your client base, who then go and implement that in their own digital platform, are you able to see the data that is coming in from those client responses from those tests that you mentioned, the 600,000 from Ant Financial, or is that the data of the client and not accessible from Schroders' perspective?

Susan Soh

He's the technical guy.

Peter Harrison

You'll hear it from Graham in a moment.

Graham Kellen

It depends on the client relationship. You obviously want to get the statistical values in to make the finance work, but we don't see the underlying data. On most cases, the client keeps retention of that data and we just get the statistical model results that we need, which are fully anonymised. They help refine the models.

Mike Werner - UBS

I guess in terms of the feedback that you have gotten from those clients, has that actually been integrated or how is that integrated in terms of the service and products that you will provide or you plan to provide going forward?

Graham Kellen

I think Susan showed that it's part of a holistic approach of moving across the value chain. We designed it using, to talk very technically about integration, we designed it using micro services, related to APIs, so it's seamless for our clients to take advantage, or if they can choose to cobrand it, to take up from then, to change the questions, which we'll then run behavioural science on, etc., so for them it's really easy. We absolutely set out to recognise that the way risk profiling works in most organisations doesn't take into account the true personal situation or the biases or the true risk nature of an individual, so we wanted to address that, and we think that this product really builds it for them.

Mike Werner - UBS

Thank you.

Peter Harrison

Any more? Excellent. Susan, thank you. We're now going to stop for a quick cup of coffee and resume in 15 minutes if we could. Thank you.

Graham Kellen

Chief Digital Officer

So, yes, I think I'm very impressed that everybody came back actually. I think several years ago the thought of talking about a technology discipline after a break would have cleared the room, so thank you. So what I'm going to do today, as Peter says, is really talk to you about the journey we've been on. I think today the great thing you've seen is when people talk about digital the first question they generally ask is, what does that mean, what does it do?

It generally historically has been a very technical discipline but what you've seen today is really the outcomes that the journey we've been on over the last three years have enabled us to do. Really part of the thing I would like to discuss with you today is that transition from just being technology, to becoming an enabler, and then the future state of us really becoming a value driver.

So over the last three years, Schroders have spent a great deal of time really understanding the trends, the technologies, that are available to financial services as a whole and to other industries, and really trying to understand which of them we should be harnessing, which of them are hype, and which ones that we should be maturing our own capability of being able to deliver.

As you can see you recognise all of those and we're at varying degrees on each of those. The ones that I think we are now recognised through awards of being voted the digital asset manager of Asia for being voted by the Living Group as the number two globally in terms of digital intelligence. We've managed to harness some of these and really start to drive them into the core of our business.

Going forward over the next three years the sorts of areas we're starting to think about is the next generation, the next follow-on from robotic process automation which we're calling - and is called in the industry as intelligent agents. There is so much hype around artificial intelligence but we will be looking at the true advances in that in terms of deep learning.

We've already seen the new interfaces, conversation interfaces in terms of a chatbot, the APIs needed to drive technologies and delivery of extra services to our clients, such as InvestIQ, and then also how that will power the platforms that actually drive the wealth management business that you've already had explained.

One of the other things we're looking at is as we become a data driven organisation it's really important that we constantly keep giving our users and our colleagues the very best visualisation tools. Over the next three years, we expect to see an emergence of much more three dimensional visualisation of data. Because as you start to get more complex and the search for alpha increases of trying to find those insights that nobody else can find, a two dimensional view is not enough, so we'll be exploring that going forward.

But it's not just about technology. What it's also about is thinking across the whole organisation. So one of the key things over the last three years has been that digital has gone from just being a distribution and a marketing support function to working right across the organisation. Everything we do we break into - it has to comply with one of these four pillars.

It either has to improve the customer experience, it has to improve our operational processes, it has to challenge, evolve, or refine our business model, and also one of the key things that's often forgotten - which I'll talk about in terms of digital strategy - is, how do you change the culture of the organisation to be able to accept the new ways of working, the new technologies?

How do you create that innovation culture for people who are at the grass roots of the organisation to be able to identify the things they could be doing differently, and how do you make those happen? Then also how do you provide people with the skills to understand and really leverage the technology or the new capabilities we're putting in their hands?

The key enablers for that inevitably are analytics and data science. Becoming a more data driven organisation means that you can find the insights and you can see some of the problems a lot quicker, so democratising that. The emerging technologies we've talked about but also to Susan's point about “co-operation” and collaboration we've also as part of our digital strategy significantly changed our approach in how we interact with FinTechs.

Over the last three years, we've gone from seeing them as potentially in the robo space as competition to actually somebody we can work with. So FinTechs we spend an awful lot of time collaborating with and actually working with them to create solutions for asset management and wealth management. Over the last three years, one of the key things we've seen is the definition of the opportunity for FinTechs that this space, asset management and wealth management, is somewhere they can really play in and provide solutions to.

So I'm going to touch on the customer experience area briefly and really before I start on that it's been a key mission over the last three years for us as an organisation to understand the change in customer experience. A decade ago when I've previously worked in asset management it practically felt that people still believed that institutional clients would like to receive a quill based letter.

But now in every walk of life, in every aspect of their working life and of their personal life, our clients, our intermediaries, our end consumers, the B2C, they now live in a world where technology is everywhere. They are connected all the time in every aspect of what they do.

What we have worked hard to understand is the various touch points of that, and how does that affect us staying relevant in that changing world, in that new connected environment, and how do we deliver products and services to that? We also provide the capability to work with our distributors for them to understand their market as well.

How that's translated is that change in the user experience expectation. So we now have got in the digital team an experienced design team. Everything we do we now recognise that understanding the experience, the service design, how that's delivered, the context in which it is delivered, is absolutely essential. It is part of the product.

So when Peter was talking about that focus historically of the industry just on performance numbers we're now looking much broader and we are understanding how is this delivered? This has resulted in significant changes. SchrodersGO that Susan talked about is actually a whole of market chatbot. So it actually - you can ask it a question about non-Schroders products. That was quite a leap.

Traditionally, I think an organisation providing the first chatbot in Asia as we were would have just focused it on just Schroders' products. But we actually ran some client focus groups and they liked the product, they liked what it would do for them but they actually said, but it would be helpful if I could look at all funds and I can actually compare them. So that's what we did and that's why it's had significant success, so those sorts of areas.

We've also recently, as you know, worked with marketing and brand to redefine our brand and the digital experience of that and that's been key. Because as we move to multi-platform consumption of our content we have to be able to make that still feel cohesive to the end consumer. Really I guess the best analogy is working like Apple and really caring as much about the box that the product comes in as the actual product.

Some of the data science capability that we've been working on we've now started to roll out across the organisation. That means we've reached a significant level of maturity now in the data science techniques and the capabilities to provide a really great understanding of what our clients actually want. That isn't just about personal face-to-face user group conversations, it's really an understanding of the content we push out there, the thought leadership we push out there, and the client interactions our advisers and our sales people have.

How do we start to categorise that, how do we start to use that as a data resource to be able to provide - I use this analogy internally about providing our sales teams and our marketers and our product designers with their own Iron Man suit with a Jarvis that's constantly feeding them real time data about how successful the article has been, whether or not the clients are finding the certain topics we're talking about interesting.

We've actually started to be able to engineer for the first time a direct correlation between website activity and investment into product. That's absolute gold for both us as a product manufacturer but also for our distribution partners, to be able to provide them with the clarity of what pitches, what events, what activities, the actual evidence to show that those are working.

You can see there, there's a sort of dashboard we call the sales cockpit, which shows what's going on and the information there and you can search for when a product has been discussed and what the sentiment was. So we've taken that very leading age digital marketing capability and we've turned it into an internal lens.

But again, going back to the original point of it's not just about marketing, we've applied the same techniques and capabilities across the organisation. So focusing on operational improvements Susan talked about Singapore leading the way in our robotic process automation. These are some of the numbers that we've shown.

So we've got 79 bots working, there are 10 business areas that are actually leveraging those, and what's interesting is those 100 FTE equivalents are freeing up people's capacity. Think about your own working day. When you come into work in the morning there are activities, either quarterly, monthly, or daily, you have to do that are very mundane. You have to collate data, you have to process information before you can actually start to do your job.

What we're really seeing is the opportunity here is taking those slices of non-value generating activity from a productivity perspective and actually taking them away from people who should be doing other things and automating them for them. So when they come into work the task is already done, the data is ready to go. They've got the information they need to do their job and that's the real value of this, and we'll be starting to apply more intelligent automation going forward to start allowing there to be decisions and criteria around certain follow-on activities.

One of the other things we've found is, for example, when we implemented RPA in Singapore, for example, we found this latent business engineering capability where some of the people that we were taking out time from their day and freeing them up they actually had computer science degrees that they weren't really using in the general day. So by being able to provide them with these sorts of tools they can now code their own robots to actually do other tasks and actually start to free up their own time and really get to being a much more self-service capability.

The other area I think has been really revolutionary for us is we were one of the first movers to implement a data science function within the investment research and investment space. We've now reached a maturity of that where as I said in distribution and marketing that capability is now being rolled out across the organisation. We spend an awful lot of time understanding the data that we need to be able to create, to manage, and that's a significant part of what we do that data management.

That's now happening across the organisation in all the different spaces. Part of the benefit of the digitisation of what we do is the vast amounts of data that we then get, organising that, and then being able to provide those feedback loops on the objectives, the success of those activities, or finding those lean opportunities to actually redefine the process to take out the wasted activity or the areas that we could just automate anyway.

So that's now reaching a significant level and we're starting to find that by democratising the data science capability of making it available to everybody through both our own skills development, also the commoditisation of those technologies, it's becoming much easier to actually overlay technology on top of the data we've got to start to help people serve themselves.

But also to be able to find the ways in which we can then learn from that and improve what we do. So the democratisation of the analytics has also been a key activity because it's one thing being able to capture the data to be able to analyse the data but it's the visualisation of that which has also been key, so rolling out a global analytics practice to help every aspect of the business define the reports and insights that they need on a daily basis.

So fundamentally, the toolkit available to a fund manager and pretty much to most other people in the organisation has fundamentally changed. So now we have the ability to give them analytics and insights into their data, we now are building a really sophisticated data platform, we're just launching a project which will deliver an internal data market place.

One of the things about democratising that data is that if you think about your own organisations and our own peers, often they have lots of data but it's in silos, and getting access to that data is one of the biggest inhibitors to become a data-driven organisation.

So part of our digital strategy is to find ways of being able to make that able to be shared within a safe and appropriate way and allow people to, instead of the previous models of people having their own copy of the data, manipulating it, doing their job and then it not being useful to anybody else, we want to be able to create this data marketplace across the organisation that everybody will able to work on the raw data collectively, so they will have access to it. Then as they work, then refining that and creating value-add to that data, they can then share it.

So then that means that the application of robotics to take some of the manual tasks out of those processes and then apply machine-learning and artificial intelligence creates a very different skillset and capability. Where it gives a scalability and it gives us insights and efficiencies faster.

The previous two elements of better data about what your client is doing, what your client wants, looking at your operational processes to drive efficiency and increase the capability of those, leads you naturally to the ability to actually evolve, challenge and redefine your business models. So the living proof of that - unfortunately she's not in the room now - is really Susan and James Rainbow where we were able through acquisition of a technology-centric business such as Benchmark, we were able to enter into a joint-venture to be able to provide technology that previously wouldn't have been made available or wouldn't help us be able to operate at the scale we now need to work at.

Really, that's a reflection of the journey that digital has had through the asset management industry. So where you see Susan talking about being able to provide enhanced products and services, that is a very natural progression and it's a journey we've been on over the last three years. So when we first started out in digital, unfortunately I was there in 2001, it was just about creating websites and marketing.

Then we evolved into being a sales support tool, starting to evolve into client services where we were providing portals for clients where they would log in. The reality of those portals was that we were probably one of eight providers so we weren't necessarily solving the client problem, we were solving our part of the problem. So what we needed to do was now moving into Digital 3.0 is really start to co-create financial solutions with our clients and actually provide solutions to their exact problems.

So an institution we would now expect to be either working with them with something like Symphony where we create a live-data stream for them or actually providing APIs for them to be able to plug the data into their core systems. Whereas previously, and traditionally, they would receive a PDF version of the data, which is completely - although it's informative - they have to re-gear, that data is inert, it doesn't form part of their own business value chain.

So what we are trying to do now is reinvent how we deliver that information, working with our partners and distributors to actually create those data streams of a variety of data. So our API strategy is very key in terms of how we cooperate and co-design financial products and solutions.

That's true for our intermediaries and distribution partners, as Susan was explaining. By providing tools that go into that client relationship, that helps provide better outcomes for the end consumer, so we are much more sure by providing things like InvestIQ as part of the risk profiling process, we are much more sure that we are confident about the client's suitability of those products being sold to that client.

But also, we have been part of that journey and as we work with those distributors and partners to get feedback over what worked and what doesn't, hopefully that will inform our product design and the design of our capabilities and services.

It is about longevity, so providing these services creates a deep relationship with our partners in every way, we're easy to work with, we've removed friction from the process of buying and selling product, and we're seen as a deep partnership where we really help them try and understand their clients and help them deliver value to their clients.

A classic example is Ant Financial. The Ant Financial discussion that got us to deliver InvestIQ to them was something that was born out of our desire to get much closer to the client in terms of understanding the experience they wanted. We ran a workshop in Hong Kong, we invited Ant Financial along when we were just designing the very start of that product, and we designed the capability for a client to be able to take this and use it for their own relationship discussions right from the very beginning.

Those conversations drove the design, the technology that was being used and how we would actually think about how we would manage the security of data and how we would run that part of the technology platform.

It is those sort of platform decisions that form an equal part of understanding the client and delivering value to them and is a key part of what we're calling Digital 3.0.

So this all is being a digital leader is great, but you need to make sure in my job that you keep the organisation with you, so I spend a lot of time working with senior leaders, helping them understand the art of the possible. Helping them understanding why something is hype, why something isn't quite mature yet, but also that certain things are very mature and we really should be exploiting them, and then working with them to work out how they should be able to leverage those.

Also on the ground, helping people who are living the interactions with our platforms running our business on the grassroots level, really helping them understand this disruption that they're seeing in their everyday working life. Helping to balance some of the hype that you get in the media about robots taking all of our jobs et cetera, and really, demystifying it for them, but also making them informed so that they can be part of that change too.

So we've developed sort of a three level digital training program which we are rolling out in the second half of this year which will be foundational level for everybody in the organisation and helps them understand both the digital transformation they're seeing in their personal life, but also their working life.

Then helping them specialise in certain areas such as AI, machine learning, robotic process automation, to help them become really quite expert in that in terms of being a practitioner on the ground. Then for certain people that we're working with that will be actually driving those changes and really identifying where that application would really provide value with providing that sort of master class level.

We see this, so everything I've talked about, we see as a significant competitive differentiator. So everything today, as a former technologist and a former entrepreneur, it's great to work at Schroders because our embracing of technology is significant. You've seen it today, it's mentioned in every presentation, and the desire to change and disrupt ourselves is huge and we see that as working on the application of this as a key driver of our future.

The final thing I'll talk about is how we are learning from other organisations, be they a FinTech be they big tech on the east coast, and really understanding how we can inject into our organisation those different ways of thinking. The recruits I have in digital are not often traditional financial services employees, they come from telecommunications, they come from big tech, they come from FinTechs themselves. That's really key because they bring that very different perspective and they inject into the discussions that slightly different way of thinking.

The other way we do that is through our Cobalt program where we work with incubational start-ups where they have a product that may not be quite right at the moment for asset management, or they have an asset management applicable product but we think it would be really interesting to actually use that in our organisation. Instead of doing the usual thing of setting up a lab or setting up a garage in Shoreditch where they all sit on beanbags and play table tennis all day, we decided to do it in a very different way. So we actually bring them into the organisation.

One of the promises of FinTech mentoring and FinTech engagement is that your staff will mentor them. If you've done that outside the organisation they're not going to get the time because everybody is too busy. The other challenge with innovating with the FinTech external to your organisation is, to be honest, you haven't really dealt with the problems, which are compliance, which are legal, which are information security, and it's your technology infrastructure.

So by bringing them into the organisation at the very beginning, we tackle all of those issues head on and actually they've significantly changed our procurement process, our legal processes for getting NDAs and how we actually design contracts for companies that are very new. Also working with our information security guys to help them understand the different ways of working on the cloud and the different ways you can work with data.

So over the last year we have met with over 400 start-ups. You can see on there that 30 of them were running with active proof of concepts and what we also do is by having those engagements and understanding those technologies and where they may be applicable, we also run hackathons.

Right now on our ninth floor there is a distribution hackathon going on where we are working with our distribution folks, my internal and my external innovation team are working with the distribution folks to explain to them, very much in the Google way of giving up 5% of your time. Giving up 5% of your working time over the next three months, how can you innovate and change something in your organisation?

So right now they are upstairs, they are going through the ideation process this morning. After this they will refine those ideas and then later on they will then decide which of those ideas are going to be successful and are worth pursuing over the next three months.

Last week Peter very kindly hosted our own internal hackathon which is a global one where it's an innovation challenge. The great thing, when we first started out it was a load of technologists who were just finding technical things they could do. This time around we've had 69 ideas submitted of which, completely to be frank, 66 of them were actually business ideas. There wasn't actually much technology involved at all. Pretty much none, I think all but two of them were new technology.

So it was taking the existing technology, finding new ways of doing new business things that actually have significant value. We chose the winner and the winner will now be funded because as we work with our key technology delivery partners we run a sort of innovation fund where we accumulate funds and then we use that to then make sure that those innovative ideas actually make it into the real world.

Actually, if you didn't know, SchrodersGO, the chat bot, was actually a previous winner of an internal hackathon. So we now have a track record of taking that idea that came out of Singapore from a very small team where they decided that it would be great if you could get fund prices just by using the chat bot. We took that idea, we got business sponsorship and we've delivered it.

So in summary, I hope I've been able to illustrate to you that digital at Schroders is not just about the traditional digital aspect of distribution and marketing. We are a team that champions new ways of working, we're driving and working with senior leaders to really understand how they can disrupt their own business and we're actually delivering value to both our clients, we're improving our operational efficiency and we're also upskilling our employees and colleagues for the future. The combination of that is presenting some quite interesting opportunities for us to innovate our business. Thank you.

Peter Harrison

Chief Executive Officer

Thanks, Graham. I'd add one other thing, that I think in transforming people's personal technology we've enabled the organisation to go get rid of paper, work in an agile manner. So we were only able to move 1800 people in theory into this building because of the structure of it, in fact we've put 2500 people in this building because we were able to work agile. That was driven by a technology platform and the ability for people to log on anywhere at any moment within three seconds. That just changes the whole tempo of the organisation, it makes you far more appealing to a different group of employees that perhaps wouldn't have been attracted to financial services in the first places.

Questions for Graham. I thought that was going to be the case, I don't know why.

Q&A Session

Gurjit Kambo - JP Morgan

In terms of when you're rolling out the digital propositions to clients, how tailored are these solutions and I guess what I'm trying to understand is the tailoring versus the scalability in these solutions.

Graham Kellen

So I would say that the reality is that change happens and you have to build these things knowing that every client will have different requirements. So we are very fortunate I think in this day and age that by developing microservices, so by atomising everything you do into very small components allows you a greater deal of agility.

But we also go into these things, I think traditionally when people were building monolithic solutions they would have a very defined use case and it would only cater for that use case. So we try and be a bit more flexible when we're developing those now, but also the technology we're delivering allows us.

So the classic example, somebody asked about the data on InvestIQ. We've designed that so it can be delivered on prim for the client, it can be in a cloud of their choosing or we can host it for them. So by having that microservice capability it gives us the ability to deal with those nuances that I worked in client technology deliver for 20 years and every time you go to a client it's different. So we've just tried to bake that in from the get go.

Peter Harrison

I think the other part about it is it allow us to do many other variables of InvestIQ which we haven't talked about, but deliberately so, which will come from the same technology platform. So you can reskin this over and over again.

Graham Kellen

That really has been learned from talking to east coast big tech organisations about how do they experiment and fail safely. People talk in my role about failing fast or working in a regulated environment, I've got to fail safely. So part of the challenge is finding ways of making sure we can zig and zag without it being a problem.

Peter Harrison

We talked right at the beginning about personalisation and I said I think our industry obsesses about performance. I think we're in a - because the world recognises that capitalism isn't working, climate is becoming massively important, what we do with our money I think is going to be more important than ever. We have set ourselves an internal goal to make sure that we lead in this place.

Jessica Ground is head of our stewardship, going to spend a few minutes now just to say what that actually means because I think bringing it live - we're not talking about painting walls green, there's a huge amount of painting the walls green which has gone on. This is I believe different. Thanks, Jessica.

Jessica Ground

Global Head of Stewardship

Jessica Ground

Thank you, Peter. As a former financials analyst myself I have some sympathy for you sitting there at this stage in the investor day. So I will really try to focus on making this as engaging and as punchy as possible, but also stressing how important this is increasingly for our clients. I'm sure that you're aware that you cannot open FTfm this week without there being some article on ESG investing. We believe it's something of a perfect storm.

Primarily because we see environmental and social change accelerating and creating an incredibly challenging backdrop for companies to navigate and for our investments to navigate. If you look 10 years ago, the World Economic Forum was talking about the challenge of asset price declines and failed states. Roll on, it's now about cyber security and climate change, clearly ESG risks.

The second major issue is the global challenges that Peter has just talked about, issues like climate change which definitely require finance’s involvement to solve. In case you haven't noticed, governments seem to have run out of money and we need to think about a low carbon economy. So there's going to be more pressure on channelling finance towards that direction.

Then there's the regulatory pressure, this had really risen in the wake of the global financial crisis, and it is indeed global if we look at things like stewardship codes. But there is more scrutiny on the entire investment chain about how we're holding companies to account. Not just on issues like remuneration but also on their own environment and social performance.

Asset managers have increasingly got to maintain their own social licence to operate and prove that they're not just traders but really are good stewards of the companies that they're investing in on their client's behalf.

Then finally there's the end client interest, that old adage you don't drink what your father drank, you don't invest perhaps like your father invested, or indeed your mother. Savers of all types are increasingly focused on sustainability related issues and it becomes more important in part of our overall proposition for clients.

But we are a - clients come to us for alpha and I think the most important thing to start is why does ESG integration, why is it increasingly important for us as active fund managers and how we navigate these head winds that I just talked about? There is plenty of academic evidence that is quite backward-looking that says what we all feel we know, that companies that are well managing their ESG risks benefit from lower costs of capital, less operational volatility, that gets recognised in credit ratings.

But what I think is a forward-looking approach - and that's what's really important for us as we think about how we navigate this for our clients, large companies are becoming increasingly important to economies and they have grown their share of GDP, their share of employment over the past 20 or 30 years and that trend doesn't show any signs of abating.

In line with that, I mentioned asset managers' licence to operate, but unsurprisingly as they adopt this privileged position in society there is a lot more focus not just on what they're doing but how they're operating in business terms. So if we look at a number of issues in terms of how regulatory costs are increasing quite significantly, not only in the US where we have the data there but we're seeing that happening globally in emerging markets as well. We've all seen the OECD clampdown on tax avoidance and tax rates and the public mistrust of major corporations is rising.

So for us as investors, we need to understand, as I said, not just what a company is doing but increasingly how it's doing it, and that pulls on a lot of the new data analytical tools that Graham just talked about.

So unsurprisingly, as well as being more important for generating alpha, we have a huge amount of our own data about why this is more important for our clients. We do two major survey of clients every year, both institutional and retail. Let's start with the institutional one, 650 asset earners, everywhere from pension funds to insurers globally. What you will see if you look at 2007 to 2018 has been the acceleration of those who feel that sustainable investing is going to become more important over the next five years.

Now, levels are very strong in Europe, we know that, it's quite well established here. What is so interesting is the growing interests that we're seeing in the US and Asia and we're very focused on being early movers into those markets and talking to our institutional clients.

The same data comes through in our retail survey which looks at 30,000 investors in about 28 countries, so 64% of them say that they're interested in sustainable investing including funds that are supporting things like good corporate governance and climate change, 64% have increased their allocation over the past five years, that's from a very low base, and 76% of them say it's much more important than it was five years ago.

But what's so fascinating is when we surveyed the advisers and what we are seeing is that sustainable investment is much more important to end clients than it is to advisers, and that's a gap that we can really help to bridge. The other thing that we see is that end clients say that sustainable investing is the second education topic that they would like to receive training on.

So there's a huge underlying demand for more sustainable investing, which so far, as far as we can see the investment chain hasn't been very good at navigating and demonstrating.

One of the things that we need to be able to demonstrate is how we really are giving our clients more than investment returns and also how our work can actually support the development of investment returns. Now, we're in a stage now where everybody if they didn't embrace the green revolution as an asset manager is talking about how they drive a Tesla. What is incredibly important to underlying about how we have approached here is our ongoing commitment to it.

So we first started this 20 years ago, and yes, we have grown the team recently and Peter has been instrumental in backing that over the past five years in particular, but you cannot do this overnight. Especially if you want to embed it and have an impact in every aspect of your performance.

The second thing which I think is very distinctive about what we do is we have the investment leadership of it. So I've been here for 21 years as well as being a financial analyst I was a UK PM. If you look at Andy Howard, our Head of Sustainable Research, he was a sell-side analyst. That's incredibly important because there are a lot of people there who are passionate about the environment but they don't always know how to translate that into financial impacts.

If you look at the thought leadership that we've put out there with tools like Carbon Value At Risk, the Climate Change Dashboard, we've been really innovative at showing that.

Then it's unsurprising that we're getting a number of accolades. So we have consistently been A+ by the UNPRI for our overall approach and we're either A or A+ in each of the individual asset classes which is incredibly important. There is not an institutional RFP that does not ask that these days.

I think something we're more proud of is the NGO Share Action, doing an assessment of 40 pan-European fund managers in 2017. This is the last day that they did it for. Saying that we were number one for the robustness of our policies and processes.

That type of external validation is incredibly important to us and increasingly important for clients. Whereas ESG a few years ago used to be a tie-breaker, it's not very much a deal-maker in the institutional space.

But one of the questions that we need to acknowledge about sustainability, it's very easy to say that we all want to be more sustainable and we all want our investments, but it's so incredibly complicated to navigate. This really is one of the huge opportunities that we have for getting closer to our clients.

There is a huge variety of regional definitions and differences. There's a huge growing body of both soft and hard regulation in here, many of you would be aware of the EU financial package on sustainable finance which is creating a whole load of more things that need to be navigated for a lot of our clients. But we're also seeing policy makers all around the world having more interest in this area.

Then finally there are a number of different solutions to meet a number of different client needs. So while the overall objective is being sustainable, the regulations are increasing, the levels of education are relatively low and the investment solutions are complex.

So actually we spend a huge amount of our time helping clients to navigate that. We spend a huge amount of time producing research on if you want to decarbonise your portfolio what are the options, and a huge amount of time trying to bridge the very different expectations. If you're a private client you're perhaps interested in how do I actually have an impact. If you're an insurer you're trying to understand what's the FCA going to do to regulate me on this.

So one of the things that we have done in our institutional survey again is we've actually dived down into the barriers to this to give us a better understanding of what clients need to do to help them to gain confidence in this area, and then recalibrated our approach accordingly.

So the major concern is still performance, and people have had bad experiences with different versions of sustainability. Sustainability 1.0 was all about exclusions, unsurprisingly that can sometimes drive a bit of a volatile performance. Sustainability 2.0 has been more about perhaps some of the best in class, or some of the indexes. I'll show you later why they haven't delivered.

We're very confident that Sustainability 3.0 of meaningful ESG integration and we can start to see this in our own funds and teams that are doing it can drive alpha, but we've got to realise we've got to get our clients over that.

But equally and just as powerfully are the number of concerns about lack of transparency, reported data, the need for education, difficulty in measuring and managing risks. So we can really take our clients on a journey to educate them about this and to help them to navigate it.

One of the first things that we're doing is just helping them to understand that everything under this huge sustainable investment umbrella is not the same. Talking to Peter's idea of mass customisation, I think as we look into the future we're going to see this more important in being successful of sustainable investing.

Right now we have a situation where the Nordics and the Belgians can't even agree on what is unethical let alone what is ethical or sustainable. Also what we see increasingly coming into the conversations is an explicit desire to have social benefits alongside financial benefits.

So I want to take you across the spectrum and just talk briefly about what we're doing. First of all is ESG integration, meaningful voting and meaningful research. Incredibly important, as I said on how we deliver alpha going into the future, incredibly important for our institutional investment. It's become very much non-negotiable for any fund manager who wants to work in our business. Peter is nodding at that one.

Where we're seeing really interesting demand, and actually that is coming from institutional asset earners and it is also coming from the intermediary is more sustainable investing. So more of the best in class approach, explicitly stepping away from more controversial stocks or sectors, and we have launched a number of new options there.

We're still seeing a demand for screened investments, which are growing faster than our overall AUM, and those are becoming much more complex. Impact is we take a very pure definition of impact, so we are really targeting, as this says, a social benefit as well as a financial benefit. I think it ties in quite nicely in things that we're looking at, timed very nicely with private assets. Then finally the philanthropy.

One of the huge challenges that we have in this is that we're seeing a rise of different labels and we're also seeing a huge amount of greenwashing. So some of the things that people are putting out about caring about the environment are not necessarily matched by other areas. So what we have done is introduced an internal accreditation system for individual funds and investment projects.

So that is one of the most important things about this is that fund managers that are integrating ESG have to be able to demonstrate that they're doing that in a meaningful way that can pass rigorous tests by clients and consultants and provide the evidence of how that is influencing their portfolios construction and their stock selection.

So ESG analysis and sustainability becomes a building block of the investment process. We have about 40% of our AUM that has already achieved this, and the target is to have 100% by the end of 2020. I would like to say this is what we believe is a step above what already is the UNPRI assessment at an individual asset class level.

So far it encompasses quite a wide variety of assets, so as much real assets that we have are real estate that's already integrated, as we have EMD, as we have another of our equity.

Then the other area where we are investing more resources and launching more products are sustainable products where we are explicitly targeting normally the same performance target as the reference fund, but asking that clients adopt a longer-term approach, so look for our performance over five years.

We've launched a number of interesting global solutions, both across quant, multi-factor and very concentrated equity. We're building out our regional equity and increasingly our fixed income and our solutions in other asset classes. As I said, hopefully over time we will be looking more at the impacts space in what we can do with our existing capabilities there.

As I've mentioned, our realisation that as well as ESG integration we need to show that we're delivering more than investment returns to clients. Holding companies to account is a really important way of doing that. So we've been increasingly engaging more on ESG topics and increasingly we're seeing more regulatory interest in this, not just in the UK but globally.

So we did over 2,200 in 2018, about half of these are fact-finding and half of these are pushing for change. These are the number of issues that we have engaged on. Climate change, we believe up to 15% of global earnings could be at risk. Issues like data security as well your typical corporate governance issues.

What's really important is these engagements give us additional investment insights but they're also encouraging that more sustainable financial change. We have been tracking our engagements since 2000, we have a very high success rate. We're talking about a success rate of 60% to 70%, but you have to be patient. It takes two years to affect the change.

We're also backing it up with really vigorous voting. So at 48% of AGMs we voted last year, we voted against management on at least one resolution. We have one of the best records on voting for things like climate change resolutions, as recognised by the NGO as you saw. So we really are engaging, holding companies to account and then able to show our clients the impacts that that is having on their portfolios.

So, lots of people are talking about their engagements or writing lovely letters about they're holding management to much more account, but one of the other questions that we have is can ESG be done passively? So we've witnessed this huge growth of more sustainable funds, particularly in the ETF space.

One of the things that we passionate believe, that ESG is so complex it cannot be distilled down to a single number. Actually, if you look at the evidence of when that has happened it has not delivered alpha. Going back to that huge concerns about our performance that we see.

So on the right we've got the Dow Jones Sustainable Index and the FTSE4Good, and you can see their underperformance against the mainstream reference index in both of those cases. The left is some analysis that we've done on ourselves, on third party ESG ratings, and we have particularly looked through the lens of corporate controversies.

What we found on average if I - these corporate controversies will all be very familiar to you - that on average the third party rating agency had given them higher than average ESG ratings and then quickly they have a controversy they get downgraded, they're a bad stock and it takes them many years. One of the great examples that I love as an ex-banks analyst is all the banks were AAA going into the financial crisis.

There's also another number of issues with the third-party ratings we've written on quite extensively. The overweight developed market stocks, if you're a larger company you get a better score, and again, quite a lot of evidence they don't really realise alpha.

But of course we need to make sure that we're integrating ESG in a meaningful way and that we're not - because we don't believe in third-party ratings were not stepping away from that.

So I'm going to give you insight into one of the tools and how we're helping our analysts to do this really rigorously. So I think it's first helpful to think about the traditional model of ESG analysis, which basically focused on governance and management quality. I was of guilty of this as most, I would throw in a question at the end of the meeting and if the CEO didn't seem to completely panic at the question I would assume that all ESG issues were under control.

What we are moving to is a much more evidence-based and much more data-driven approach. It looks through the lens of different stakeholders and it is underpinned by my original premise that companies have got to maintain their licence to operate, and the cost of maintaining that licence to operate is growing.

How have we done this? So the first thing is we spent two years doing it, it's taken quite a lot of time and it's very much been helped by the digital things that Graham was talking to. The second thing is we've gone back to academic evidence and to have rigour, so we're looking at 735 different global ESG trends for 47 different sub-sectors.

What is so different about what we do compared to the third-party ESG ratings is that we have used our financial analysts to decide, looking at this body of evidence, what do they believe is really the most important issues. This really contrasts with what we know some competitors have done which is just use the standard framework like SASB. We want to engage our analysts and we want to have this feeding in.

The second point is it's incredibly data-driven. So we're looking at 150 different data metrics from 50 data sources to evaluate how well companies are managing their stakeholders. About half of this is conventional data, so from Thomson Reuters or the MSCI, but over half is from unconventional. So this is helped hugely by working with the DIU, looking at brand data, looking at product recall data, looking at Glassdoor.

We can analyse over 10,000 companies, that's 1,000 more than the leading third-party ESG rating agency, and it sits on the desktop of every analyst. I thought I'd give you an insight into how then analysts are able to use this to come to data-driven informed ESG views that they agree with.

So we had quite a lot of fun picking a company that wasn't necessarily going to be controversial, and I think this goes back to one of the core adages is that there is no such thing as a perfectly sustainable company. What we can do is understand relative areas of weaknesses and strengths and build up an evidence-based conclusion.

So this is a consumer good company and one of the very powerful things about our tools is I mentioned the third-party ratings look globally, is that investors can change this to reflect their universe. So this is against a European universe but equally the company might look different against a global one.

Then you can see pictures, you can see relative areas of strength. So management quality is one, actually this particular company is very good on the environment. But then what is so interesting is that you see they're quite weak on employment and you can see the reason behind that, they don't train very much compared to a lot of their peers and their Glassdoor ratings are much lower than their peers. In terms of governance, they don't have very high levels of independence on their audit and their nomination committee.

So what this enables our analysts to do is, 1), come to an evidence-based conclusion, and 2), to then engage and to improve things on relative areas of weakness. What we can also do with this, and this in this example is we are building funds where we can see our top quartile, our best performers on this tool called Context. Thereby make up the investment universe.

Then as a fundamental person I'm normally pretty sceptical of that test, but it looks like our analysts are on the right track. So if we look at our top quartile Context-scored stocks, they appear to be maintaining their returns on invested capital for longer. So going back to - our clients still want us to deliver investment returns, they want us to identify the most sustainable companies and they want us to engage to improve performance where things are weak.

So I think I've managed to keep back on time, but just to summarise, this is an incredibly multi-faceted area of investment, but hopefully you can see it's an area where we can work and deliver our whole form to our clients to help them navigate this. Most importantly, it helps us deliver investment performance.

So it's giving unique investment insights which don't come from traditional analysis. I always like to say 20 years ago when I started as an analyst, it looked pretty good if you could work Excel because we still had some people in the department that couldn't. Now it's much more about how you analyse huge amounts of data and understand the changing world.

That's what our ESG team really focuses on and that's what the investment leadership makes them uniquely positioned to do. That in turn feeds through to a really rigorous ESG integration and products that are able to deliver alpha. We are committed to being good stewards, so that means holding companies to account, pushing for change, pushing for engagement.

In a couple of weeks we have invited all of our UK holdings where we're going to talk to them about the issues of climate change and also run them through some of our thoughts on corporate governance, so we can have a really proactive dialogue with that.

Providing transparency to our clients and showing them the impacts of that stewardship activity, and then finally eliminating risks that can't be done by investment alone.

Then finally, we're really determined to find solutions, realising that there's a huge scope and there's a huge range of different needs. It is going to be about mass customisation, there are very different challenges if we're looking at the Nordics compared to Sharia compliance impact compared to that example of just working with an insurance company to help them manage risk.

But we are really committed to taking our clients on that journey and providing some clarity on what we know is an incredibly complex but popular area. Thank you.

Peter Harrison

Jess, thank you. You've done well to get through all that in that time. I was rather enjoying the picture of a bit of greenery rather than the concrete jungle, but anyway. Before we do general questions, is there any questions for Jess anyone would like to raise?

Gurjit Kambo - JPMorgan

Just in terms of assessing performance versus benchmarks, how has the benchmark industry involved? Because I think clearly it's quite difficult to compare funds versus others.

Jessica Ground

So that's a great question and as you know, the benchmark industry has mostly evolved to charge us more for custom benchmarks. So as I briefly touched on, with the new products that we're launching we're using the mainstream benchmark, because actually we think a lot of times that what our clients still want. But generally because these are more of a best in class or a narrower approach, we're saying there will be some intermediate volatility so let's look at that over five years, over three years.

The performance for that so far seems to be building quite well. I think that's really important, because if it sort of is performance without all the bad stuff people are - those performance concerns are still going to exist.

Arnaud Giblat – Exane BNP Paribas

You were saying that 40% of your AUM was currently accredited under your criteria, what do you think the industry AUM would look like under an appropriate level of accreditation?

Jessica Ground

That's a great question. You hear horror stories of firms that have made huge commitments to ESG and individual asset managers not coming in, or you hear people just saying some of the quant houses are just saying, well, we're integrating this because we have a central ESG score. I think it's very hard, we haven't heard of other people doing this in that it's rigorous, it's annually renewable, it's in people's objectives and appraisals and monitored by senior members of the firm.

Peter Harrison

It's also an objective measure, so the RFPs, there's a proper auditable process that says you have integrated this into your investment process. We think that actually - you think about where this goes over time and being held accountable for what it is we're doing, I think that clarity and that real detail is what is going to actually be really important. Not just from a return perspective but also from a risk perspective, because you can't make these claims unless you can genuinely validate that you're doing these things.

We're going to be at 100% at the end of next year, 40% of our investment teams are there today and I'd say that without exception our teams are on - the other 60 are on that journey to accreditation. But it's not an easy journey, and those who have done it, there's some blood, sweat and tears along the way.

Great, thank you, Jess. Before I let you go, are there any questions that we haven't addressed about the broader business? I'm conscious that we've focused on the consumer and wealth today. Richard and I here are happy to take any other questions of how this fits together in the broader picture.

Hubert Lam - Bank of America

I guess one name that we haven't mentioned today was Nutmeg and how that fits into your digital and your wealth management, or is that just a financial stake and you're just going to leave it at all?

Peter Harrison

Nutmeg is a financial stake. It was a very helpful learning for us to understand the nature of robo, the cost of cost and acquisition. You saw that Goldman Sachs took a meaningful stake alongside it. We've got a number of other initiatives but Nutmeg is now held as a financial investment for us.

Great, well thank you all for giving us the morning, I appreciate the time. I say we've done well, we've done the core business. Next time we will probably bring it together with private assets, but thank you all for giving the time. Thank you.