

Half Year Webcast Presentation

Peter Harrison

Group Chief Executive

Welcome to our results announcement. We're going to follow the same format as in past years. I'm going to say a little bit about headline numbers and flows. Richard will then take you through the details of financials. I'll come back and talk a bit more about how we're making progress against the strategy we outlined. Then we will do Q&A after that.

I was pleased with this set of results, most importantly because we've made progress against the strategic priorities that we set out for you previously in terms of the long-term areas of growth. We saw very good gross flows, we saw positive net flows, against a challenging environment. In summary – you've seen the numbers but very briefly – net income up 11% to just over £1 billion. Profit up 10%. Dividend up 3%. Average assets under management up 9%. Year-end assets under management, flat year over year given the very high ending point of last year's markets.

If we just dig into the flows, I said previously that we felt that we were behind in the strategic areas we wanted to grow. This is high-level – last half year we reported net inflows of £0.8 billion. This year, £1.2 billion. Slight inflows into Institutional, or very slight outflows, and Intermediary of £0.2 billion each way, £1.2 billion of net inflows into Wealth Management.

If I just give you a little bit of the flavour of those in more detail, by asset class first of all. Quite a marked shift – and something we've talked about before – from equities into multi-asset. I'll talk a little bit, quickly – equity flows – inflows into emerging markets, £2 billion; Asian equities, £1.6 billion; global equities, £0.7 billion. Flows out, UK equities, £4.9 billion; quant equities, about £3 billion. So, as always with a very diversified business, areas in, areas out.

Multi-asset saw £5 billion of inflows. Really interestingly, within that, £4 billion of that was bespoke solutions for clients. We've talked a bit about how the world is moving towards solutions, that was a big growth driver in that number. Fixed Income, small numbers each way. Small outflow from Institutional of about £0.7 billion. Private Assets and Alternatives was pleasing. £0.8 billion in of good longevity assets, particularly into private equity and securitised credit, the two main growth areas there. Wealth Management, a total of £1.2 billion in, split between £0.5 billion for Cazenove, £0.7 billion for Benchmark Capital. So, that trend towards growing Wealth Management is continuing.

If I look at it by region, the other lens we put on it, despite the outflows from UK equities, overall in the UK we saw inflows. We saw Asia – frustratingly, to my mind, we had good inflows in Hong Kong, in Singapore, in Taiwan, in the sort of growth markets of Asia. But we saw further outflows in Australia of £2.4 billion, which net was a flat result in Asia, which was frustrating.

To my mind, the highlight – and I think I flagged to you last time that we were putting a lot of emphasis on growth in North America – we saw £2.8 billion of growth in North America, £2.4 billion from the Institutional channel and another £0.4 billion in the Intermediary channel. Hartford assets are now £5.1 billion and continuing to grow nicely. Importantly, there, the breadth of new products coming into North America, which I think is a good measure of the future, was very broad indeed. So, North America, working well, £2.8 billion of inflows.

South America, also, another £1.2 billion of inflows. Chile, Peru, Colombia, et cetera. The normal suspects delivering well.

Europe, we saw outflows. The two areas I would highlight there – there's a sort of risk-off environment really, particularly in the second half – £1 billion out in Italy and some money out in the Middle East. But again, overall a better tone in the first quarter, a slightly weaker tone in the second. But with the exception of that, we are comfortable with the spread of results there.

I have to say, one of the features of this was some one-off big flows in terms of client restructuring. That, for me, is – we've talked about this in the past, but bigger mandates being internalised. So, one of the features that Richard will pick up is that although we – the flows picture, we saw some one-off mandates out, we did see the benefit in our overall margin numbers, which were probably more resilient than you were expecting, given the shape of that asset churn.

I'm going to stop there. I will hand over to Richard and then I will come back and talk about progress on strategy.

Richard Keers

Chief Financial Officer

Good morning, everyone. As Peter set out, we have reported a pleasing set of results for the first half of 2018, with profits up 10% compared to the same period last year. I'll take you through the detail in a moment, but first let's look at how the result breaks down.

We have generated good revenue growth, with net income of £1.1 billion in the first six months of the year. That's up £112 million, including an additional £22 million from performance fees and carried interest, which I will explain in a moment. The strong performance of Wealth Management and the progress we've made in developing our private asset capabilities have helped deliver that growth, and they've offset the headwinds that Peter has mentioned. We have a total comp ratio of 43.5%, which I guided to in March, and our non-comp costs are in line with expectations. That means a total cost ratio of 63%, which is as we expected.

The main driver of the 10% increase in profits is, therefore, the good revenue growth. We are estimating a full year tax rate of 20.5%. That's down 1% from the full year 2017. Remember, the 2017 rate included a one-off charge following the US government's decision to lower the corporation tax rate. So, our half-year tax year charge was £81 million, which takes profit after tax but before exceptionals to £316 million. We had exceptional items of £23 million, which mainly relate to acquisitions. That brings us to profit after tax of £293 million, an increase of 8%. Basic EPS was up 10%, to 114 pence before exceptionals. Reflecting this growth, we have increased our interim dividend to 35 pence per share.

Now, let's look at the increase in net income in a bit more detail. As I've just mentioned, net income was up 11% to £1.1 billion. The majority of that increase was from net operating revenues, which were up £111 million. Average AUM was up 9% against the same period of 2017. That reflects the impact of four things; investment returns, FX, net new business, and acquisitions. Positive investment returns which we delivered for our clients increased average AUM by around £30 billion and generated additional revenues of £50 million. However, that growth was partly offset by the relative strengthening of sterling period on period, which reduced revenues by £30 million.

That's a key change. We've had an FX tailwind for the last two years, so that's quite a marked difference. We've gone from a tailwind to a headwind. However, that growth was partly offset by the relative strengthening of sterling, which reduced revenues by £30 million.

Net new business generated throughout 2017 and in the first half of 2018 increased revenues by around £40 million. That's mainly driven by the annualised revenues off the 2017 flows that I highlighted in March. The £1.2 billion of H1 flows that Peter has just talked about will generate annualised revenues of around £10 million, but only a very small part of those is included in these numbers, with the rest to come through in H2.

Turning to acquisitions, in total these increased net operating revenues by £49 million. That's £29 million of management fees, mainly from Schroder Adveq and the wealth management business of C. Hoare & Co, with an additional £20 million of carried interest from our Schroder Adveq business. As you will know, carried interest is similar to our existing performance fees, but it is earned over a much longer timeframe. The income we have recognised here is from funds that are a long way into their life. It represents our right to share in the

investment returns of our funds after delivering a preferred return to our investors. Consequently, future returns are dependent on the performance of our underlying private equity funds and are difficult to predict. In our view, you should not anticipate any further income from this in your models in 2018. Certainly, I am not budgeting for anything.

Finally, we generated £16.1 million in performance fees. That's up £2 million compared to the same period of 2017. As I mentioned in March, we are budgeting £40 million for the year as a whole.

Now, let's look at what happened to the net operating revenues from each of the channels, starting with Institutional. Net operating revenues were up £60 million at £433 million. £20 million of the increase comes from the carried interest income that I've just talked about. Performance fees were £3 million higher, at £16 million. The remainder of the increase was driven by a higher average AUM, which was up £23 billion on H1 2017. We had strong Institutional flows last year and we have seen the benefit of these come through in our revenues this year. Net flows in the first half will generate annualised revenues of around £4 million.

As we discussed in March, Institutional flows have generally been in lower margin products, and this trend has continued. The effect of this is to pull down our margins, although the impact has been partly offset by the positive investment returns we have generated. Net operating margins, excluding performance fees and carried interest, were down a little, from 31.5 for the full year to 31.2bps. That's in line with the guidance I gave you. We expect the trend to lower margin products to continue, and over time will drive further margin compression. Consequently, we might see the margin come down a little further in H2, but we are still expecting it to be around 31 basis points for the year as a whole. However, you can see that our strategy to further diversify our business, with a focus on private assets, is delivering as we continue to grow net operating revenues.

Turning to Intermediary, net operating revenues were up 10% compared to H1 2017, to £479 million. That's driven by a £10 billion increase in average AUM. That includes the combined impact of markets, FX and net new business. Our 2017 net new business generated strong annualised revenues, and we are seeing the benefit of this in the first half. Flows this year have not had a significant effect on annualised revenues. Revenue margins were largely unchanged at 72 basis points. We are continuing to see longer-term pricing pressures, but we don't expect a margin decrease this year. Again, this would depend on business mix in the second half.

Moving to Wealth Management, net operating revenues were up 7%, to £140 million. The majority of the increase comes through in management fees, which were up 8% to £106 million. Net banking interest was up 21% as we benefitted from rises in interest rates. Again, annualised revenues are important, and you can see the positive contribution for the net new business we generated on the slide. Revenue margins excluding performance fees were 62 basis points. That's up slightly from last year, but in line with H1 2017. There is some seasonality here as we usually see slightly higher transaction levels and fees in the first half. At this stage, we don't see any reason for you to change the revenue margins in your models.

Let's now look at our operating expenses. We have a total cost ratio of 63% for H1 2018. As you know, the biggest component of our expense base is our comp cost. We accrued comp at 43.5% of net income. That's in line with the guidance I gave you in March. We do not currently see any need to change the ratio from here but, as always, we will review this later in the year. Non-comp costs were up £32 million to £217 million, and we now expect our full year non-comp costs to be around £455 million. The only changes to my previous guidance are the additional costs in the acquisitions we have made in the first half and the change in FX.

Finally, we have £18 million of exceptional operating expenses. As you know, these are mainly acquisition-related and include the amortisation of intangible assets. Reflecting the additional acquisitions we've made, we're now expecting exceptional operating expenses of around £35 million for the full year.

Now, let's turn to the last section, on capital. I have talked to you previously about our commitment to making our capital work harder. In the first half, we have invested in a small number of acquisitions that further expand our investment capabilities. We have also deployed almost £200 million in new organic investment strategies. That takes our total seed and current investment capital to a little under £600 million and, as you know, we've been investing in the group's infrastructure and technology. Notwithstanding these investments, we continue to maintain a strong capital surplus.

So, in summary, a pleasing set of results. Good revenue growth of 11% has driven profits of £397 million. Yes, there are industry headwinds, but our diversified business model and willingness to invest in areas of growth mean that we are well-placed for the future.

Thank you. I will now hand you back to Peter, who will take you through the progress we have made in some of these areas of future growth.

Peter Harrison

Group Chief Executive

Thanks, Richard. You've seen this slide before. We've highlighted seven areas where we feel that we see long-term strategic growth for this group. I don't intend to go through all seven, but they are all still very valid and they are all still areas where we are making strategic investments. I wanted to just pick out three for this results meeting.

The first one is North America. I pick on this because we have seen a really meaningful change in the underlying direction of flows in North America. We have invested heavily in the sales force. We have made a strategic shift in our Intermediary market. We have seen really good development in terms of the type of products we're offering, in terms of the longevity of those products – particularly around private assets, the development of the Hartford fund range – and to my mind, I stuck my neck out this time last year and said we will see continued growth in North America, that's coming through.

Particularly pleasing, actually, in Canada. Canada is the fifth largest institutional market in the world, last time I checked. That's been an area where we have been under-represented and we're seeing good flows – £0.6 billion in this time. But we're seeing flows across all channels and as far as I am concerned North America is on target. We have recently made a significant hire, again within our Distribution, and will continue to invest there.

The second area I wanted to focus on was Private Assets. We have made two inorganic moves during the first half of this year. I'm sure there will be other questions, but just in brief, Algonquin is a real estate hotels business. It has 53 hotel assets around. If you imagine, you buy a hotel, it's a very high longevity asset. You earn a management fee and participate in the success of running that business for doing it. It's historically been a business which has partnered with a relatively small group of customers.

We feel two things. One is that this is a huge sector in the US, it's not in Europe. So, having acquired a leading player in Europe, we think our distribution can really accelerate its growth. Secondly, there is an awful lot of movement in terms of hotel companies changing the way their balance sheets are structured. So there's a ready supply of new assets. The evaluation of those assets is still attractive, and they fit our strategy of being very high longevity. So, Algonquin is an important addition to our real estate range.

The second area is a state in an acquisition business called A10. A10 is US real estate private debt provider. The reason for taking a stake in this is to acquire origination. Those of you who know this sector well will not that anybody can acquire private debt, the key is that you want to acquire private debt where you feel comfortable about the long-term ability to be repaid. You get that if you own origination. A10 is an originator. It's got a sales force on the ground which acquires assets. To my mind, that is the fuel which will help grow our securitised credit business going forward.

So, two important developments. Importantly, Adveq, the business we acquired last year, we went through the acquisition – you will recall that overall, I think, last year they produced £1.4 billion of net new business. Not all of that was in our numbers because some of it was pre-acquisition. Importantly, and despite the change of control, we have seen further growth in the first half of another £0.6 billion come into there. We are making progress on securitised credit and in other areas but, for me, this is a strategically important area. We will continue to look for other capabilities and build this out. We have also made progress in building out what we call our alternative sales unit, which is a specialised sales group dedicated to selling these assets. The sales process is slightly different, albeit the clients are the same. So, private assets are on track nicely.

Then finally, Wealth Management. You recall that last year we acquired the assets of C. Hoare & Co. For us, that acquisition has gone very well. The people are still here. They have been a great addition. The relationships

with clients are still here. We have seen good net new business flow into Cazenove. We reinforced the management team. You may have noted that we made an announcement. Peter Hall, who used to run Tilney Bestinvest for Permira, is joining us. Andrew Ross is retiring – well, he’s actually staying with us, but he is stepping back from full-time management and is going to become Vice Chairman at the end of this year. So, that’s – again, this business continues to develop. Andrew has done a fabulous job of integrating Cazenove and Schroders, and on his retirement, we’ll bring in Peter Hall, who I think will continue the growth story. Benchmark Capital, which we’ve talked about in the past, continues to deliver good growth and I see no reason for that not to continue.

So, I haven’t gone through all those seven areas, but each one of them is working well. Technology, we’re in the midst of pushing the button over to Aladdin at the moment and making a lot of other progress. Solutions, we saw £4 billion of flows in this quarter. But to mind, we all know – and you know as well as anybody – the headwinds that are facing this industry. I think these seven shifts in our business mix are ensuring that we will have growth going forward.

That’s it from Richard and I, the formal part. Very happy to hand over to questions. If you could announce your name and there is a microphone floating around. Thanks.

Q&A session

Chris Turner (Berenberg)

Two questions, please. Firstly – I’m afraid it’s a rather geeky, technical one – in terms of the carried interest, can you talk a little bit through how that mechanism works? Is it an IRR hurdle, that kind of thing? Then the £40 million gross figure you’ve reported, I assume that’s some kind of fair value figure and therefore if markets should decline maybe you have some kind of clawback. Can you just talk through the maths there? Then finally on that, the £40 million is a gross figure, you have this £20 million cost of sales, which I assume is some kind of compensation charge for the employees there, therefore should we expect in times when you have big carried interest that actually your compensation ratio for the group as a whole is a bit lower than your 43.5 because you’ve already paid those guys via carried interest?

Richard Keers

Shall I take this, and then you can chip in?

Peter Harrison

No, it’s definitely a Finance Director one, this one.

Richard Keers

I think it’s fair to say the accounting for this is somewhat complicated and we’ve had quite a few debates on how to make sure we don’t mislead you in terms of what to expect. Ideally, I would have liked to have netted off the 40 and the 20 because I think – the real number is 20 here. It’s not 40, it’s not 20. The 20 isn’t comp, it’s being – it’s essentially paid to former owners. There is a small comp effect, but it’s relatively minimal. So, it shouldn’t distort comp because it’s not related to employment.

Chris Turner (Berenberg)

So, there should be a 43% or whatever cost impact on that carried interest, in theory – roughly.

Richard Keers

In theory, yeah. We need to look at – you know, as I mentioned earlier, we need to come back at the year end and look at comp, as we always do, but at – 43.5 is our best estimate as we sit here today.

Chris Turner (Berenberg)

Then, sorry, one final clarification and then I’ll hop over, but there is a fair value effect here?

Richard Keers

There is. So, largely this number has been driven by a single fund that's 12 years into a 17-year life. We are in – you'll see in the data pack, there's an example, but we're basically in a catch-up phase where all the return is coming to Schroders, not to the investors in the fund, because it's gone through the hurdle and as it continues increase it will then normalise at a 90/10 relationship, but at the moment 100% of the return is coming to Schroders. We obviously need to pay that out also to the former owners, because it's not all ours. It's 50% ours.

It's not fully realised in cash, so there is – I guess the other part of your question is – it could reverse but it's fairly conservatively underpinned, but it is not 100% realised in cash.

Chris Turner (Berenberg)

Thank you. Then my second question, the changes you made in Wealth Management, bringing in somebody with maybe more platform experience, more technology experience, should we read anything into that?

Peter Harrison

First of all, thank you Chris for getting us off to a flying start with accounting questions. No, I mean – look, we – Andrew has done a really great job and we've got a very, very strong ultra-high net worth platform in Cazenove. The acquisition of Benchmark has taken us into the growth of more high net worth individuals and more platform business. Peter's experience is slightly broader than Andrew's, but I think it reflects – I've talked in the past about the opportunity to use Schroders and that gap in the middle, if you like, between a pure intermediated asset management model and the ultra-high model, that group in the middle. So, it's – having somebody who knows that business well is logical but it's not a radical shift of strategy. It's something we've talked about before.

I think if you look at where our DNA is strongest, it's in that ultra market. So, bringing a bit of different DNA in is the thinking behind it. Diversity of thought, I think, is the key.

Chris Turner (Berenberg)

Thank you very much.

Haley Tam (Citi)

Two questions, please. First of all, on Benchmark Capital, it's obviously doing very well, I just wondered if there were any impacts that you could see so far from the investment platform market study on that business model? The second question, I am afraid, was about carried interest again. I just wondered, you've mentioned that this is really the catch-up on one single fund. Can you give us an idea of the profile of any remaining funds and when they might – how old they are and where we are in that stage of reaching the hurdle rates? Thank you.

Peter Harrison

Thanks, Haley. The downside of going into Private Assets is that we're going to have a lot more of these conversations, I'm sure. If I take Benchmark first, we have seen the platform study. Obviously, we are in the throws of it. One of the characteristics and one of the things that attracted us to Benchmark is it's a – if you like, a high-tech platform that supports advisors. As such, it's highly competitive. So, we actually think that the changes, if anything, are net positive. We're working through them but one of the reasons we're seeing good growth there is that advisors are attracted onto the platform because of its functionality and capability. At the end of the day, they want to be able to be seen to be delivering good things to their clients and a high-tech platform allows that to happen. That's what the platform study wants to happen as well. So, if anything, it's supportive of where we are rather than the other way around.

Richard, do you want to answer Haley's question on...

Richard Keers

Yes. It's a really difficult one as well. There are obviously different generations. I think the most important thing is, I guess – in my presentation I said that we're not anticipating anything else this year. There are funds that –

different stages, but we're not anticipating anything further. I know it's not what you want, but I can't give you the prediction you want.

Gurjit Kambo (JP Morgan Cazenove)

Just a couple of questions. They're not on carried interest. The first one is just on the seven strategic areas of growth. You've talked about three today and all three are actually seeing some good momentum. Are there any areas where it's been a bit more challenging? So, that's the first question. Secondly, in terms of Asia Pacific, I think the good progress in some of the markets you have highlighted have been, I guess, masked by a tougher environment in Australia. What's going on in Australia? Any comment around that?

Peter Harrison

These are important questions. Good, thank you. So, across the seven, I would say we feel that we are making good progress on all of them. However, as always, there's – if I just get that chart back up – sorry, I'll do that. We talked about Fixed Income and Multi-asset. Fixed Income was a tougher market and I think that the challenge there is that as US rates rise, the hedging cost for people using buyer-maintained bond structures from Solvency II or some of the big sovereign funds who have exposure to US hedged, is under pressure. That tipping point is – we've definitely seen outflows as a result of that. That's a market phenomenon. It's not our strategy not working, it's just that if US rates continue to rise we should expect to see those strategies no longer work.

Asia Pacific, net flows overall being zero is frustrating. You're absolutely right to highlight Australia. This has been a feature of our results, unfortunately, for the last four meetings that I have stood here. The issue really is that the very largest asset owners in Australia are going through an internalisation and are doing a major shift into passive. We were a very significant manager in Australia and we're taking a hit. The good news about these numbers is that our Australian equity business actually was flat, so it's the – around the global equity piece. We've seen flows elsewhere into global being positive and fundamental, but the outflows in Australia – and I – our sense is that it's coming to a – I mean, actually, if you look behind that 2.4, it was two clients who accounted for all of that.

So, I don't want to take out Australia, but some of those very big clients, they make a big impact the same as one client in the UK accounted for £2.7 billion of money out of the UK equities. So, is that the overriding theme?

North Asia has been great. We've – I mentioned Hong Kong, Singapore, Taiwan. We're making good progress in building out China. Good progress in building out the teams in Japan as well. So, that's working well.

Solutions is going well. So, the one I haven't talked about is technology. That – it's a lot harder because the financial metrics around that are not so clear. We are aiming to go live with the implementation of Aladdin in two weeks' time, so we're parallel running at the moment. That's proceeding well, so that's on target. The digital re-branding and the change to strategic capabilities has gone well. Delighted to see that the Schroders brand has moved to number one in the UK, based on the fact of its digital presence. That was a nice reinforcement of the shift we made there. The rollout of our strategic capabilities has gone very well. I mean, we're seeing very high levels of engagement, Income IQ, and others. So, I think the technology piece is working well.

Really, it's that Asian bit and Fixed Income markets being difficult. But other than that, we feel pretty good about them.

Sorry, I should add one thing. The price of Private Assets in the marketplace is high. I mean, we saw a couple of acquisitions that we were looking at this year that just went for silly numbers. Massive numbers of bidders prepared to pay very big prices. That's a potential break on our strategy, if you can't acquire because other people are willing to pay monopoly money. That's a problem.

Arnaud Giblat (Exane)

Three quick questions, please. Sorry, firstly, on carry, since you're guiding or expecting no carry for H2, and most of the carry came from one fund which is in its catch-up phase, I assume that you're saying that you've been through that catch-up phase?

Richard Keers

It's not 100% through the catch-up phase.

Arnaud Giblat (Exane)

But close.

Richard Keers

Yeah, it's relatively mature.

Arnaud Giblat (Exane)

Okay. Secondly, on method...

Richard Keers

That's actually – there's about 20 funds. There are a handful that are close to catch-up phase, but we don't have the experience – it's not like performance fees where I can give you a three-year normalised number. We just don't have the experience of how they are going to behave, and therefore give you the confidence to predict any future earnings out of them. But this year we are not anticipating anything further.

Arnaud Giblat (Exane)

Okay, thank you. Secondly, on MiFID, the implementation of MiFID has introduced, probably, a competition in the independent channels through independent advisors. Are some of the outflows you're seeing in Europe linked to that implementation and the ban on retrocessions that they have seen? Perhaps are you seeing some passive taking market share in those channels?

Peter Harrison

That's a good question. If you look at the UK experience around RDR, which I think is probably a good test case, the proportion of assets that went to passive pre-RDR was about 8%. The proportion of assets that went to passive post-RDR was around 26%, 27%, 28%. So, you would expect to see in that environment a shift towards passive.

I think the other thing, though, you would expect to see is a focus on – a greater focus on partnership rather than a plethora of fund providers. I think that does play into Schroders' hands as a partner who can provide the full waterfront of good products across – with all the right wrappers in all the right jurisdictions. That change actually plays to long-term partnership with a smaller number of managers. So, what we're tending to find is that the lists are shrinking in those countries, but we're participating in the shrunken list. So, there's a double effect, if you like. Yes, there's a pressure but there's more volume that goes with it.

It's very early days to call, but I think fundamentally it plays to being very well-diversified and global.

Arnaud Giblat (Exane)

Okay. My third question was on Aladdin. I mean, you mentioned that you are about to switch over. Could we be seeing – or should we be expecting some retirement of legacy technology and some cost savings as a consequence?

Richard Keers

Yes, but not this year. So, we're hopefully going live in a week and a half's time for our platform, excluding Asia. Asia is on a slightly different timetable. It's Q3. It's going to take some time to retire the legacy, but I think – I've guided to you before, don't expect anything this year but this will lead to the retirement of a number of applications and systems next year.

Peter Harrison

The reason for starting with this is that we want to re-plumb our whole business to be digital first and really simple but very technologically advanced. So, unfortunately, as with all things technology, Rome wasn't built in

a day, but we have made some important strides. The savings, sadly, come once you've put the thing in. Then you can start to drop off the stuff at the other end. So, they're always going to come at the end.

Richard Keers

But we haven't just put in new IT. We've also used this to look at our business processes, simplify them, harmonise them, so I guess there's ambition to be able to run more assets in a scalable fashion, delivering cost profit efficiency in the future, whereas our legacy was – we would have struggled to have double the size of our business without adding a lot more clutter and manual workaround. So, that sort of underpins why we have done it.

Peter Harrison

The other thing that I would add is that whilst we talk about investment platform, the other areas of importance were in the first half we've moved all of our UK-based staff onto S3, so get rid of the hard box on the desk and go straight into a data centre, which enables a completely different way of working. That investment has gone on and done in parallel with what's been going on in Aladdin, so there are lots of different work streams.

Arnaud Giblat (Exane)

Thank you.

Hubert Lam (Bank of America Merrill Lynch)

A couple of questions. Firstly, Peter, I think you mentioned that you expect greater fee margin pressure over the medium term, but so far we really haven't seen it. I think the only area you are seeing fee margin pressure is in Institutional, but that's mainly due to mix. I'm just wondering why you think there hasn't been much fee pressure so far. That's the first question. The second question is there has recently been some press speculation on Schrodgers being one of the final candidates on the SWIP assets. Any comments you can say about that in terms of timing et cetera?

Peter Harrison.

Okay, thank you. We got this far anyway. Just first of all on fee margin, if you go back over time, yes, we have seen our margins have come down. They haven't in this period and that's predominantly around mix. So, if you look at – as you write more high-margin business you're going to help maintain the mix, and we saw good inflows, particularly the last half of last year into Intermediary, and a fairly rich mix of Asian and emerging markets versus UK. That's a positive mix as relates to margin. So, I wouldn't misunderstand industry pressures with mix. That's kind of – it's very hard to show, but I think those industry pressures are certainly out there but I think, at the end of the day, what's becoming very clear to people is that those who want to stay, want to stay for alpha. That's where quality of product starts to differentiate.

You know, we've had a number of conversations with clients who say, well actually, this is the price, it's okay. Well, you deliver, so we will pay that price. So, the pressure is if you're not delivering but I wouldn't want to deter away from the fact that, long-term, I see that there is a pressure on margins.

I know – on the second question, I know you're going to interpret how I say this, but no comment. Sorry.

Any more for any more?

Well, listen, thank you all very much. Can I just make one reminder that please don't come back here for the next set of results because we won't be here. It will be building site. We will be on London Wall. I look forward to seeing you there. Thank you.