

Schroders plc

Full-Year Results

Michael Dobson

Chief Executive

Okay. So good morning everyone and welcome to Schroders. We announced this morning record results in terms of revenues, profits and assets under management. As importantly, in 2014, we qualitatively strengthened our business in line with our strategic goal of building a highly diversified business across institutional, retail and high net worth, across many different strategies in equities, fixed income and multi-asset, and regionally across obviously the UK, Europe, Asia and the Americas.

So, turning to some of the detail, net revenue was up 9% to GBP1.53b, a new record. Profit before tax and exceptional items was up 11% to GBP565m, earnings per share up 17% to 152.7p.

The Board is recommending a 29% increase in the final dividend, which if approved will lead to a 34% increase in the full-year dividend to 78p per share.

78% of our assets under management are outperforming benchmark or peer group in the three years to the end of 2014, which I think is quite a competitive number. We generated net new business of GBP24.8b, and our assets under management end of the year up 14% at exactly GBP300b.

Looking first at our asset management business, we generated higher gross flows and higher net flows during the year. Our gross flow number was a new record of GBP85b, and even if you exclude GBP12b from Friends Life, the gross inflows we generated in asset management are the highest we've ever generated. Net inflows, GBP24.3b, very close to the previous high in 2010 of GBP24.7b.

Strong results across institutional and intermediary and across regions, and growth driven by a diversified set of strategies across multi-asset, fixed income and equities.

Now, if we look at the institutional business in more detail, we had a very strong year, GBP17.6b of net inflows, of which GBP12b came from Friends Life in the fourth quarter. That GBP12b is broken down GBP7.8b in multi-asset, GBP3.7b in equities and GBP500m in fixed income.

Our net inflows were led by multi-asset, with GBP16.7b. We had GBP4.1b of net inflows in equities and we had GBP1.9b of net inflows in fixed income.

Strong results in the UK, but also in Asia and in Europe. A more difficult year in the United States, where we had net outflows for two reasons. First of all, commodities on the institutional side, where we have, I suppose, suffered along with the asset class, which has had a torrid time and we've seen some net outflows in commodities during the year. I think that's now beginning to come to an end.

And also, in our international equity business, international and global equities, where we've also seen some institutional net outflows in the United States. I think again that is coming to an end. I'll talk about the strengthening of our international and global equity capability later on.

So I think that is coming to an end, and I think that the US will once again return to a situation of net inflows. We've strengthened the distribution capability in America. We have STW coming through very well. Again, I'll return to that. Commodity outflows are beginning to run off and I think we're going to see a return to growth in our international and global equity business, if not this year then certainly next year.

We also had a strong year in intermediary, GBP6.7b of net inflows, up 40% on 2013. 87% of our net inflows in branded funds, higher margin branded funds. Strong flows in continental Europe, at GBP5b. We are now top five in gross and net flows in continental Europe in the cross-border sector. And a strong performance also in Asia Pacific.

We had outflows in the UK, linked to some performance challenges and then a manager change in our UK equity range. Again, that I think is now pretty much behind us.

In terms of some of the themes we've been seeing, very much an income theme behind not only multi-asset, but also fixed income and equities through our Dividend Maximizer range.

Looking at the individual asset classes, net inflows of GBP4.5b in equities across a range of strategies. Emerging markets was our biggest source of net new business, at GBP1.6b in the year. We generated GBP1.4b in Asian equities, net, GBP800m in Japan.

And you may have seen in the press that we have been appointed and funded this year, in 2015, by GPIF, the largest pension fund in the world, the government employee pension fund in Japan, with a significant Japanese equity mandate which -- and GPIF is seen as a benchmark in Japan, so I would hope that that will lead on to further appointments in Japanese equities going forward in the institutional pension fund business in Japan.

Dividend Maximizer has been a big theme for us, GBP1.3b of net new business.

On the other side, outflows have been in the UK SMID. I referred to that very poor performance followed by the manager change. European specialist. International I referred to earlier, particularly in the US context.

And actually, in Australia, where we have a great business, strong performance and leading capability, but we've seen some allocation away from equities in our Australian business in 2014. Nothing to do with performance; our performance remains very strong and our position remains a leading one in Australia.

But those, I would say, four asset classes have seen outflows. I think in each case, I would see that as coming to an end with growth opportunities in each of those asset classes, with the possible exception of Australia, where we are already at a significant position in terms of market share.

76% of our assets under management are outperforming over three years. We have a good pipeline of new products coming through, and as I said earlier, a strengthened

capability in global and international equities, which I think in the long term is going to be a major source of growth for this firm.

So we are very positive about what we can do in that business. We think we can build a significantly larger business, not only in the United States, but particularly in the US, in global and international equities. And we now, I think, have the strengthened team, performance is coming through, and the capability to do that.

As we've said to you before, multi-asset has been a significant area of focus for us for the last several years. It's been the fastest growing part of our business for several years and it continued on that track in 2014, with GBP16.9b of net inflows, multi-asset assets under management up about 40% on the year to GBP72b.

I think it validates our strategy of focusing on investment outcomes and solutions in three broad buckets of income, de-risking through, for example, LDI, and risk control growth through our diversified growth funds, for example. And we're seeing significant interest in flows in all those three areas from both institutional and intermediary clients. 88% of our assets in this area outperforming over three years, so it's a very strong track record.

And we have some interesting new initiatives coming through in wealth preservation with Strategic Beta, which was up 14% last year. We've invested our own pension fund in that strategy quite significantly. Richard will talk about that later. And this resulted in some excellent returns for us, ourselves. And that three-year track record will come into play at the end of July this year with very strong performance. So, long term, we're very positive about the outlook for that strategy.

Emerging markets, liquid alternatives with our GAIA platform, where we've launched successfully some third party hedge fund managers in a UCITS structure, using our Luxemburg Gaia platform, including some of our own strategies. And we have some new initiatives, new strategies coming on stream later this year in that area.

We have recently launched a UK version of our global multi-asset income fund. This is to address the opportunity with the change in the law around annuities here in the UK, which I think long term will be an interesting challenge in that area. And we are in the process of launching a life flexible retirement fund targeting the DC pre-retirement market, which again in the long term I think will have some traction, benefiting from some of these recent changes.

We've been saying for a while that we have the strongest fixed income capability we've ever had in this firm in terms of people, in terms of products and in terms of performance, and it was very good to see this coming through significantly in 2014 with GBP4.7b of net inflows. Strong flows in euro corporates of GBP2.6b net, and in global multi-sector at GBP1.9b net.

83% of our assets are outperforming over three years. STW, which was the fixed income business we bought in the United States, based in California, we moved that business to New York and it's fully integrated in our New York fixed income business, successfully integrated, all the investment talent retained and the performance track record maintained. Yesterday, one of their key flagship funds got a five-star Morningstar rating, and it's actually top percentile in its universe over three years.

We've actually had some outflows in this business. We've had about GBP500m of net outflows in STW in 2014. This, as you can see, is nothing whatever to do with performance or talent retention. It's to do with some asset allocation away from long duration bonds, and I think some residual concerns over the acquisition in certain quarters. But I believe that's behind us, and we're very positive about the opportunity to grow this business on the back of this outstanding track record, going forward.

Overall, I would say, and we've said this before and I think it's now validated by these numbers, that our fixed income business is very well positioned for continued growth.

Turning to wealth management, on the back of a full-year contribution from Cazenove, we had net revenues up 42% to GBP213.5m and profit before tax and exceptional items up 80% to GBP61.7m. This includes GBP9m of one-offs, which is GBP2.9m of performance fees and we don't typically book performance fees in our wealth management business, and GBP6.1m release of previously made loan loss provisions. And you can effectively deduct that GBP9m from the revenue line and the profit line, pretty much, to get the underlying performance of the business.

The integration of Cazenove Capital is completed, successfully. Our focus has been very much on stability of clients and people, and I think that's been achieved. Our focus has been predominantly on that during 2014, but notwithstanding that, we still generated GBP500m of net new business in wealth management in 2014, also despite the residual outflow of a very large client in the first quarter of 2014 which we referenced in 2013. Most of it went in 2013, but there was a residual, I think, GBP250m out in the first quarter of 2014.

So I think we view that GBP500m of net new business as quite a positive result, given the changes, given the bedding down of Cazenove Capital and the integration of our two businesses, which is now complete and I think well established, well recognized in the view of existing clients and prospective clients as making a lot of sense in offering a very compelling proposition in the UK wealth management marketplace.

We are targeting, in this business, 2% to 3% of net inflows per annum. So with GBP31b under management, we are thinking in terms of GBP600m to GBP900m as a reasonable annual new business target, and I would hope it's at the higher end of that range.

A 65 basis point net revenue margin; in 2014, it was 67 basis points. I think it could edge down a little bit, but somewhere in the 65, 66 basis point range is where we expect it to level out.

And we're aiming, and I've said this before, at a 70% cost/income ratio. Last year it was 71%, but if you take out the one-offs, the performance fees and loan loss releases, it was in fact 74%. So our target for that business, long term, is 70%, and I would hope we can get there within the next couple of years.

I'm now going to hand over to Richard to take you through the financials in a bit more detail.

Richard Keers

CFO

Thank you Mike and good morning. As you've just heard, 2014 has been another successful year for Schroders, and once again we've delivered record results. These results demonstrate the benefit of our diversified business model and they reflect the full-year contribution from our strategic acquisitions, STW and Cazenove, that we made in 2013.

The effective integration of these businesses was a key priority for the year, and I'm really glad to be able to tell you that right in line with our plans, the integration is now complete. We now estimate that we have achieved synergies from the Cazenove acquisition of some GBP18m per year, compared to the GBP12m to GBP15m we originally planned. You can already see some of that benefit in our results.

As always, organic growth is also important. In 2014, we had nearly GBP25b of net inflows, and that strong business growth underpins our results.

Net revenue increased strongly, by GBP123m. This is where you see the impact in growth in assets under management, which reached GBP300b for the first time. The increase in net revenue has been achieved even though performance fees are back at more normalized levels of GBP37m.

Profit before tax and exceptional items is up 11% at GBP565m. That is more than the growth in revenue, reflecting our continued focus on cost control and efficiency, including the synergy savings I just mentioned.

We had exceptional items of GBP48m in 2014. These mainly relate to the acquisitions we made in 2013, and I will return to this later. After exceptional items, profit before tax was up 16% at GBP517m. Diluted earnings per share is up 12% to 161.5p before exceptional items.

As Mike has already mentioned, the Board has recommended a final dividend of 54p, bringing the total for the year to 78p, an increase of 34%. This represents a payout ratio of 47%, recognizing these strong results and our belief in the future growth potential of the Group.

So, as I have said, net revenues are up strongly. I will now take you through some of the detail.

Net revenue is up 9% to over GBP1.5b. Here is where the increase of GBP123m came from. At the half year, we reported GBP66m of additional contribution from last year's acquisitions, and those deals were only partially reflected in our 2013 results. That hasn't changed.

Net new business contributed GBP57m. We have delivered good investment returns, which have contributed to the growth in net revenues by some GBP100m, but that growth in revenue has been partially offset by the strength of sterling compared to 2013. The combined impact of markets and FX is GBP33m, which you can see here.

Performance fees are down year on year at GBP37m. They only represent 2% of our revenues and they are difficult to predict. For 2015, we are budgeting performance fees of around GBP40m.

Other revenues were up by GBP11m, mainly due to the release of loan loss provisions in wealth management, which I will come back to in a minute.

That takes us to total net revenue of GBP1.5b. So we saw strong growth in wealth management, up some GBP63m to GBP213m, and asset management was up GBP57m.

I would now like to take you through the split between our two asset management sales channels, institutional and intermediary.

Net revenue from institutional was GBP583m. That's up on last year by GBP26m. During 2014, we earned GBP28m in performance fees. That's slightly down from the GBP35m we earned in 2013.

The institutional margin hasn't changed since the half year, at 37 basis points if you exclude performance fees. That's down from 38 basis points in 2013. The year-on-year decline is due to changes in the mix of business. The most significant driver is the reduction in commodities assets under management, following challenging market conditions in this relatively high margin asset class.

We expect the institutional margin to fall in 2015 by approximately 2 basis points. That drop reflects the impact of changes in business mix, which includes the impact of new flows.

Now, turning to intermediary, here our net revenue was GBP721m, up GBP31m. Our intermediary channel has seen the main reduction in performance fees, down nearly GBP40m to GBP6m. As you know, we had exceptional performance fees in 2013, and we did not expect to see the same level repeated this year. Despite this fall, we have seen positive growth which is the result of consistent net inflows over the last two years and a full-year contribution from Cazenove.

If you exclude performance fees, intermediary margins are down to 76 basis points. That decline is mostly due to changes in the mix of business. That reflects the progress we have made this year in building scale in fixed income and the impact of changes to distributors' business models. In 2015, we expect intermediary margins to fall by around 1 basis point, due to continued changes in the business mix.

So now let's look at wealth management. Here, we've seen a GBP63.5m increase in net revenue. The Cazenove Capital acquisition made a real difference to the size and scale of the business. Management fees are up GBP45m, transactional fees by GBP8m and net interest income by GBP1m.

There were GBP9m of one-off increases in the 2014 revenue. GBP3m of these were performance fees earned and are unlikely to be repeated at this level in the future. The remaining GBP6m were from the release of loan loss provisions established in previous years. We have now resolved all historic impaired loans.

Net revenue margins before performance fees and net loan loss recoveries were 67 basis points. That's 3 basis points up on a year ago. This is mainly due to the loss of two low margin mandates we highlighted last year, combined with changes in the mix of business. As Mike mentioned earlier, we expect the net revenue margin to be approximately 65 basis points going forward, reflecting net new business wins and slightly lower transaction fees.

That brings me to the end of our look at revenue. Now let's move on to profit before tax.

Profit before tax and exceptional items increased by GBP57m to GBP565m. That's an increase of 11%, and as I've already mentioned, this is better than the increase we've seen in revenue. The improvement is mainly due to good cost control. This is our highest ever level of profit, and I would now like to take you through how we delivered the increase.

I've already discussed the growth in net revenue of GBP120m, which you can see there in green. Compensation costs increased by GBP35m compared to 2013 and other costs increased by GBP29m. I'll come back to these two items in a minute. Adding on a small increase in the interest and other income, that brings us to profit before tax and exceptional items of GBP565m.

On a segmental basis, the growth comes through in wealth management, up GBP28m, or GBP19m excluding the one-offs, and asset management which is up GBP30m.

Now turning to costs in more detail, starting with compensation costs which make up 70% of our cost base. Average headcount is up by 200 people, following the acquisitions, which has clearly increased our total compensation costs.

The full-year compensation to net revenue ratio is 45%. That reflects disciplined cost management and is right in line with our long-term target. We're budgeting 45% for 2015.

Non-compensation costs excluding depreciation were GBP281m, compared with GBP255m a year ago. The increase is mainly due to a full year of cost from the acquisitions we made in 2013. They were only included for part of the previous year. And you'll recall that we got an insurance recovery of GBP6m in 2013.

We have made a strategic investment in our IT systems, in response to increased regulatory demands and to maintain the efficient operation of the business as we continue to grow. That investment has resulted in an increased depreciation charge of GBP16m, as we have put new systems including the developments to our investor platform into operation.

I've already mentioned the GBP18m of synergy savings we got from the integration of Cazenove. Overall, our total costs, at 64% of net revenue, are 1 percentage point lower than our long-term target.

Looking forward, there continues to be cost pressures; as an example, from regulatory focus. We also have a number of initiatives which we are investing in today that in the long term will help us manage cost, remain efficient and continue to deliver high quality client service. As a result, we expect other costs including depreciation to increase to around GBP315m in 2015.

I would now like to take you through the exceptional items you can see in our accounts, most of which you will recognize. Net exceptional costs were GBP48m.

Integration costs are now behind us and are below our original budget. We have also restructured other parts of the business, including the closure of Opus Commodities and our wealth management trust business. Together, integration and restructuring costs were GBP12m.

Amortization of acquired intangibles was GBP23m. This should reduce to GBP20m in 2015, as certain elements are fully charged.

Deferred compensation arising from acquisitions was GBP13m and should fall to around GBP9m in 2015, as the schemes partially vest. That means we will wind up with a small final charge in 2016.

So, exceptional items are below budget, as we effectively managed the cost of integration at the same time that we were achieving higher synergies than we had forecast. In 2015, we expect exceptional costs to fall to around GBP29m, and then to GBP21m in 2016 and GBP16m in 2017.

I would now like to turn to the Group segment. Here, we're talking about investment capital returns offset by governance and other central costs. Overall, we have a profit of GBP4.2m, broadly in line with last year's results but with some changes in composition, a further GBP2.7m through reserves.

Our investment capital returns are GBP20.9m, up nearly GBP5m on 2013. Seed capital returns were flat at GBP2.5m. Central costs were GBP23.5m. That's down over GBP1m excluding the impact of the one-off insurance recovery of GBP6m that came through in operating expenses in 2013.

The final part of the income statement is the tax charge. Our effective rate of tax before exceptional items is 20%, in line with 2013. We are anticipating that the Group's effective tax rate may increase in the future, as we grow our business in higher tax jurisdictions such as Japan and the US.

After deducting the tax charge, our post-tax profits before exceptional items is GBP451m, which drops to GBP413m after exceptional items. This is equal to a basic earnings per share of 166.8p, an increase of 11% before exceptional items. After exceptional items, basic EPS is 152.7p, a 17% increase.

So, leaving the income statement and turning to capital, overall, the Group's capital increased by GBP269m. On the last slide, we saw that profit after tax and exceptional items was GBP413m. During the year, we paid dividends totaling GBP178m.

We also had a GBP37m gain from our defined benefit pension schemes. That gain came though from the performance of the underlying growth assets, which are invested in two Schroder funds: Strategic Beta, as Mike referred to earlier, and Diversified Growth Fund. These funds have returned 12% and 7%, respectively, for the year.

Finally, other movements of GBP3m take total capital to GBP2.5b.

So, on the left-hand side, you can see the breakdown of the GBP2.5b of capital. The regulatory minimum capital is GBP673m. This has increased in line with our business growth and due to the integration of Cazenove Capital in August.

Other operating capital is GBP284m. Investment capital has increased to GBP725m. Seed capital is lower at GBP163m, but this is due to timing and we expect to make further investment to support business growth in the future. Other items of GBP693m mainly relate to intangible assets, goodwill and the pension scheme surplus, and are not available to meet the Group's general operating and regulatory requirements.

We have a strong capital position and that's one of our key strengths. It supports us in growing the business, both organically and through selective acquisitions, as well as allowing us to take a long-term view. So we've had another year of strong growth.

I'd now like to hand you back to Mike.

Michael Dobson

Chief Executive

Thank you Richard. Just a word or two about the outlook. We've had a strong start to 2015 in the first two months of the year, a similar trend to the latter part of 2014. Net inflows in institutional, very strong performance in Asia Pacific in particular, including the Japanese equity mandate I referred to earlier. A strong result in intermediary in January and February. Continental Europe very strong again, and also Asia. So, good performance in terms of new business wins in the first two months of the year.

Looking forward, we see growth opportunities pretty much right across the business, in every asset class and in every region within asset management. And in our wealth management business, as you know, we have a completely repositioned capability which we are very enthusiastic about and with which we think we can grow particularly in the UK.

And we have work to do in developing and strengthening some of our overseas businesses in wealth management in Switzerland, in Italy and in Singapore and Hong Kong. These are small at the moment, but we think we can improve our position in these areas in the next few years.

So, overall in wealth management, we think -- we are delighted with the acquisition of Cazenove Capital and we think we are very well positioned for future growth.

Generally, I would say we are confident about the long-term positioning of Schroders. We think we have the scale, the diversity, the talent, the products, the client relationships, the distribution strengths that we need. We know that passive and ETFs are a big threat. We have some opportunities to play in that market within our multi-asset Smart Beta type strategies, and that is not a big part of our business today but I think can be -- can play an important role in the future.

So I think that while we are not in any way complacent and, as always, we have little insight into and certainly no control over short-term results, we think that long term the Company is well positioned.

So thank you for that and we will throw it open to questions. If you could give your name and your firm at the beginning, that would be good. We have a microphone coming around. So, yes, over here.

Questions and Answers

Arnaud Giblat – UBS

Good morning. Three questions, please. Could you give us maybe a bit more indication as to whether you're expecting to retain your Friends Life mandate?

The second question is in light of the recent method two developments, how able do you think you will be able to pass on the cost of research to the asset owners?

And finally, in terms of the annuity opportunity, how well are you positioned there in terms of product offering? Maybe could you give us a bit more color around the products you're looking to launch as a substitute to the annuity market and which distribution channels you think these are going to be sold through?

Michael Dobson

Okay. Well, thank you for that. I'll take the Friends Life question, and maybe I can hand over the question around research to Peter Harrison and to the opportunity resulting from the changes in annuities to Massimo Tosato.

Just on Friends Life, this mandate funded in December. We were probably in discussions for two years prior to that. It was an exhaustive, competitive tender process, very thorough, and Friends Life concluded that Schroders had the strongest offering for policyholders and we were delighted to win that mandate. And this was, as I say, the result of a very, very thorough process lasting months and months, even years. So it's only just started.

We have investment relationships with Aviva already. Aviva is a client, has been a client in the past. And we're looking forward to developing a strong relationship with them, as well as with the continuing Friends Life people with whom we've been working, who are now, well, we'd imagine will be absorbed into Aviva when the shareholder vote goes through.

So, as far as we're concerned, the judgment call that this was the best solution for policyholders is still valid, and we'll wait to see how that develops and we look forward to developing a relationship with Aviva.

Peter, will you pick up the second point?

Peter Harrison – Head of Investment

Yes, certainly. As you would know very well, method two is right in the eye of the storm at the moment. We really don't know quite what the final shape looks like, and I think the only thing that people agree on is that it's very uncertain. So we can't categorically talk about what it's going to look like in its final form.

I would say this, though; we feel we are in good shape. We've got a very large analyst base of embedded research. We're doing an awful lot with data at the moment to get further insights. So from where we sit at the moment, we feel very confident about the outlook, but it's hard to be categorical about where we're going to go because we just don't know yet. We'll need another six months, I think, before we get any clarity.

Massimo Tosato – Executive Vice-Chairman and Global Head of Distribution

The annuity opportunity, it's certainly an interesting opportunity, even if it might be a bit overestimated in market size. We launched specifically in the fourth quarter of last year the global multi-asset income in a UK domiciled version, so that it can work through a platform and with [platform] through both insurance company and IFAs. We are working, among other things, with mid-size insurance companies in that space.

We have also launched the life flexible retirement fund that is targeting DC, the end of the pre-retirement of DC, so that it can be an option open at the end to switch into an income product. So these are the two key products that we think to tackle the market with.

Paul McGinnis – Shore Capital

Good morning. It's Paul McGinnis from Shore Capital. Two questions, please. First one, the guidance for institutional revenue fees to fall 37 to 35 basis points for 2015; you said that was attributable to business mix. Were you referring to type of client or asset class? It seems like quite a big fall for one year, and whether it's GPIF or the Friends mandate impacting on that number.

The second one was within wealth management. You're targeting net flows of 2% to 3% of AUM in terms of growth. That's a little behind what some of the UK peers who have similar levels of AUM are targeting. Are you expecting to take share at that kind of level?

Michael Dobson

Well, I'll deal with the first question and, Philip, maybe you'd pick up the second.

Yes, so the 2 basis points reduction, Friends Life is part of it; half of it, maybe. The rest I would say is just in line with the trend we've been seeing in recent years, as we've grown in multi-asset and in fixed income. I must add that the fees generally in multi-asset and fixed income were quite good, but they are lower, obviously, than equities. So as you see that business mix shift, then you see this marginal 1 basis point or whatever it is reduction in average fees.

The final point I would make is that consultants, however, are becoming quite, I would say, much more active in addressing fees, and quite aggressively on behalf of their clients pushing for fee reductions on existing books of business or certainly for new pitches. This is nothing to do with Schroders. This is an industry wide phenomenon, and we to some extent have to respond to that.

So I think that we've said before that we expect fees in this industry to come down. In intermediary, they are coming down to some extent, but at the margin, if you take the overall business, to some extent in institutional as well.

Philip, will you pick up on the new business point in wealth management?

Philip Mallinckrodt – Group Head of Wealth Management

Yes. The number reflects the mix of the business, which is obviously UK private clients, UK charities, which is quite a large book of our business and where we have quite a large market share, and also the international client base in terms of Channel

Islands, Switzerland and Singapore. And I think we're looking at slightly lower growth rates, both in charities and the international business, relative to the main UK domestic private client business. So I would hope that a year from now those numbers would be moving up, but I think that's a realistic assessment given our mix as we start the beginning of this year.

Michael Dobson

Yes, over here in the front.

Jonathan Richards – Cantor Fitzgerald

Good morning. I have one quick question for Massimo on the difference in the intermediary market and just regionally what you are seeing, which clients were liking which products in continental Europe and in Asia, as Michael highlighted those two areas to be seeing strong demand. Thank you.

Massimo Tosato

In all of 2014 and in the beginning of 2015, there is not a significant difference. The biggest appetite continued to be for income related product, in Europe marginally more for equity structured income related and in Asia more for multi-assets, but it's on the margin. Multi-asset and equity income continue to be leading.

Michael Dobson

Over here.

Daniel Garrod – Barclays

Good morning. Just a quick question from me. I just wanted to pick up on the comments you made around the outlook for Smart Beta. Could you give us any kind of indication of your existing capabilities in that space, be it current assets under management, size of the team, the split of the funds between what might be considered more institutional versus retail? Thank you.

Michael Dobson

Peter, do you want to pick that up?

Peter Harrison

Yes, certainly. We use Smart Beta at the moment as a building block for many of the multi-asset products that we produce, and what we're not trying to do is to sell Smart Betas as standalone entities. I think that's quite an important distinction to make. But as a means of making a low cost effective product and combining those Smart Betas effectively, the skill from our perspective is in the portfolio construction. That's where the real battleground is going to be. It's how do you combine these things well to create good outcomes for people.

And there we've got a large number of people. Off the top of my head, they're integrated with fundamental teams, but there's 30, 40 people involved in that endeavor. And that's a team which we'll carry on adding to over time, because we believe that the more science we can put into combining those the better.

Michael Dobson

One here, please, in the second row.

Hubert Lam – Bank of America Merrill Lynch

Hi. A couple of questions. Firstly, on the payout ratio, I'm just wondering if you're still targeting 45%, 50%. And you have 47% for this year, but what would make you go towards the top end of that range?

And secondly, on use of capital, are you still considering further bolt-on M&A deals? You mentioned that wealth management you'd like to grow further in Switzerland, Italy. Is that through organic, or would you consider acquisitions there?

Michael Dobson

So the payout ratio is right in the middle of our target. We stick with our target of 45% to 50%, which we've recently been more specific about, and it's in the middle of the range. The increase in the dividend is significant this year, 34%, and it was quite significant last year. So we're sort of moving up, and I think -- we're not saying this, but I think you can assume that we are moving up to the higher end of that range. And then certainly, if you look at where we're coming from, that is the evidence.

In terms of use of capital and acquisitions, our plans in wealth management are predicated on organic growth, and I would say that is true of the firm overall. There's no change there. It always has been. But we keep our eyes open to potential bolt-on acquisition opportunities.

We certainly don't need another brand. We operate with the very strong Cazenove Capital brand in our wealth management business in the UK and in Asia. We use the Schroder brand in Switzerland and Italy. We don't need another brand. We are delighted with these two incredibly powerful brands we have. But if we can find some small bolt-on opportunities in the UK, or conceivably overseas, then we'd be open to that, but 99% of our focus is growing organically.

Yes, in the front.

Chris Turner – Goldman Sachs

Good morning. Two questions, if I may, both on flows, really. Firstly, you mentioned quite an interesting pipeline of new products, I think Strategic Beta, global and international equities, liquid alternatives, absolute return bond funds and so on. Should we think of those as being second-half weighted towards the end of the year, or are they even maybe 2016 products as those three-year track records come online?

And then secondly, in terms of the US business where there were some headwinds in 2014 in terms of flows, but it sounded like you're more encouraged by the outlook for 2015, is that driven by new products or driven by new distribution channels, new clients? What is it that gives you more reason for optimism there? Thanks.

Michael Dobson

I think the pipeline -- and I wouldn't put a date on it. We don't know when these things are going to start producing. The reason I mentioned them was in terms of the longer term, the next three to five years, there is a range of new initiatives taking

place here which I think is quite exciting. And indeed, I think core to Schroders' success for several years has been product innovation and being quite forward looking in terms of developing the products that are going to meet our clients' needs in the future, and being prepared to back that with seed capital to develop a track record.

Nothing's changed in that sense. All I'm saying is you will see new products being rolled out. Whether they gain traction quickly or not remains to be seen. So I wouldn't think in terms of second half this year, necessarily, but there is a pipeline of interesting new things in addition to a stock of existing assets, existing strategies, some going back 10, 20 years, which of course drives the firm as well.

As far as the US is concerned, it's less, I think, new products, with the possible exception of multi-asset, where I think we are quite optimistic about what we can do in the United States, and STW for the reasons I mentioned earlier. But it's more that commodity run-offs, commodity outflows I would hope are running off.

The same I would say for international and global equities, and I think we can turn that around and begin to sell back into that marketplace. Emerging markets equities have been strong there for a long time and continues to be. Plus we are strengthening our distribution capabilities in the United States and investing quite heavily in doing so.

Bruce, did you have a question?

Bruce Hamilton – Morgan Stanley

Thanks, yes. Firstly, just on regulations, global regulators are quite focused on systemic risks in asset management now. How do you see that debate evolving, or what are the possible outcomes? Is it around increased transparency and therefore incremental cost, or could there be something more disruptive around capital because you've got a good balance sheet but is there a risk there?

And then secondly, on the product development, obviously income has been a huge theme. Is that really where a lot of the product innovation is going to continue to focus, or is there any other thematic out there that is new and different as we think about the future on products?

Michael Dobson

Will you take the product question, Massimo? Maybe, on regulation, I think, and it doesn't surprise me, that there is a push by regulators in this regard. When you have organizations running trillions of dollars, when you have single funds becoming enormous, when you have liquidity risk in daily trading fixed income funds, when they get enormous, if you see rates backing up and investors wishing to redeem, there are 'systemic' issues to be considered, so it doesn't surprise us.

If it leads to higher capital requirements, that's not going to be a problem for us. I would suggest we are frankly -- you might almost say we've been ahead of the regulator on this. We think that if you're running GBP300b, to have tangible liquidity of around GBP2b to us is not a completely stupid number. And indeed, if you look at the US firms, you'll see much higher capital ratios than some firms here in Europe.

So if that's the direction in which it goes, I think we would commend it, and I don't think it's going to cause us a problem in terms of our capital situation.

Transparency is a big theme, and you see it every day and it's not going to go away. And I think that in many ways we welcome that. We don't feel we have anything to hide. We are very strong proponents of active management. We believe the incremental returns that can be generated over a long period of time, over and above an index, are highly valuable to an end investor.

And this focus to some extent also from regulators on passive being better because it's cheaper is I think a dangerous and rather short-term concept. Because if you can find managers and products that can give you an incremental return over an index -- by the way, the index of course is not available, because there are fees against that index, so measuring -- don't think anybody can get the index; they can't. It's index minus something.

I think that we are passionate about the GBP300b we run, every penny of which in active strategies and that's the way it's going to remain for the foreseeable future.

Max, over to you on product.

Massimo Tosato

Well, Bruce, to put the question you have in mind in context, you have to think that we run over 200 strategies wrapped in about 650 mutual funds globally, so it's a very broad and extensive range. In the period 2010 to 2013, we had invested significantly in building up the fixed income and multi-asset range to complete our offering that was traditionally positioned strong in equities.

From last year, we have started to be much more selective and the launch of new products has been mainly to complete the ranges through wrap rather than strategies. Nevertheless, in a selective way, we have introduced strategies like the catastrophe bond, like the convertible bonds, enlarging our capabilities in a very focused way.

Going forward, I think that we may continue to selectively add, as well as close down those that with some discipline that do not work out or do not reach significant mass. But the key difference would be that we will drive our thinking towards designing solutions for customers' needs rather than launching specific benchmark oriented new strategies where we are just quite complete.

So it's the way in which we are thinking those that will be around themes, and it doesn't matter in which way we will build the underlying engine. Rather than telling you one name or fund or another, I think that's the core message, is the way in which we change the thinking towards the customer needs.

Michael Dobson

Okay. Well, thank you very much for joining us. If you've got any other questions, you can come back to us later. Thanks a lot.

[End]