Janus Henderson GROUP PLC

Janus Henderson Group plc – 2Q17 results conference call

Tuesday 8th August 2017

Operator: Good morning. My name is Lauren and I will be your conference facilitator today. Thank you for standing by and welcome to the Janus Henderson Second Quarter 2017 Earnings Conference Call.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer period. In the interest of time, questions will be limited to one initial and one follow-up question.

In today's conference call, certain matters discussed may constitute forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements due to a number of factors including, but not limited to, those described in the forward-looking statements and risk factor sections of the company's most recent Form 10K and other more recent filings made with the SEC.

Janus Henderson assumes no obligation to update any forward-looking statements made during the call.

Thank you. It is now my pleasure to introduce Andrew Formica, Co-Chief Executive Officer of Janus Henderson. Mr. Formica, you may begin your conference.

Andrew Formica: Welcome, everyone. Today we are pleased to be presenting the very first earnings presentation call for Janus Henderson Group. The presentation today has three sections. First, I'll take you through the business results for the second quarter 2017, covering the current sentiment we are seeing in the markets as well as investment performance and client results.

I'll then hand it over to Roger to review our financial results in detail. And after that, Dick will give you all an update on merger integration and the progress we are making on realising the benefits we laid out as part of the Janus Henderson merger. And following that we'll be happy to take your questions.

Before I get started, just for ease of purpose, we'll be showing most of the numbers in my section talking about the pro forma adjusted basis, whether it's on the financial numbers, whether it's on investment performance, or on flows as it probably brings a better comparison for you all. With the merger having only completed at the end of May, it would otherwise make the numbers fairly difficult to follow if we didn't do it on a pro forma basis.

With that, turning to look at the summary of the quarter's results, the story of the second quarter can really be considered in three areas. First, the key areas of both investment performance and net client growth are solid and showing improvement from prior quarters.

Second, the financial results are strong and demonstrate the leverage we have as a larger and more diverse firm.

And third, integration efforts are proceeding successfully and we are delivering on the cost synergy targets that have been established.

Looking at investment performance, as of the end of June, seventy-one percent of firm-wide assets were beating their respective benchmarks over the three-year time period -- a notable improvement from where we began the start of the year.

With respect to net flows, while total group net flows were still negative for the quarter, we were encouraged by the significant improvement quarter over quarter driven by positive equity flows and a moderation in redemptions, notably in our quantitative equity business, INTECH.

Total group assets under management as of the thirtieth of June were $345 billion, which represented a four percent increase quarter over quarter and an eight percent increase year over year.

The second part of the story for the quarter is the strength of the financial results. Second quarter pro forma adjusted earnings per share of sixty-eight cents compared favorably both on a quarter-over-quarter comparison and a year-over-year basis. And this is driven by strong management fee growth, near-record level performance fees, and good expense management.

Roger will get into those details and explain the quarter-over-quarter change a bit later in the presentation.

Additionally, we were pleased to announce that the Board has declared the firm’s first quarterly dividend of thirty-two cents per share. On a relative basis, this compares to a pro forma dividend of twenty-four cents per share that was declared by Janus and Henderson independently in the first quarter.

The third piece of the quarterly story is the ongoing integration of the firms and the progress we are making towards realising the cost and revenue synergies that we had previously outlined. A little over two months ago we announced the completion of the merger that formed Janus Henderson Group, a significant achievement in our history.

We are pleased that the integration so far has been successful. And this success has been a direct result of the strength of our employees who have worked tirelessly over the past several months to bring our teams together.

None of this would have been possible without the dedication, hard work, problem-solving acumen, and the collaboration of our employees all across the globe.

While there's still much to do as we fully combine the businesses, I am very proud of what the teams have accomplished. In addition to the progress we have made on the integration front, we have also made good progress towards realising the synergy targets we laid out when we announced the transaction. And Dick will speak more about that later in the presentation.

So, with that said, let's take a look at some of the elements in the market and across our industries that are having an impact on our business.

As you all know, we have seen ongoing strength across the global markets which has positively impacted managers across the industry, including Janus Henderson. Year-to-date, the S&P 500 was up nine percent, reaching new record highs. And, also, many of the global and emerging market indices are experiencing similar and, in some cases, stronger results.

In the US, one of the other trends that is playing out this year and positively impacting our business and investment performance has been the outperformance from growth versus value. As of the end of June, the Russell 3000 Growth Index was up fourteen percent, and this compares to a four percent increase in the Russell 3000 Value Index.

Lastly, in addition to the strength in the equity markets across the globe, we are seeing good returns in the fixed income market with the Barclay's Aggregate up 2.3 percent year-to-date.

Looking at broader flow trends that we are seeing across the industry, US mutual fund flows continue to be dominated by passive funds as active equity flows among US mutual funds posted annualised organic loss of two percent in the second quarter.

However, despite this ongoing pressure, active funds with strong performance, distribution presence, and a strong client focus are continuing to attract net inflows. At Janus Henderson, what this means is that despite the strength of demand for passive funds, in the second quarter we saw organic growth across a number of our largest equity funds. And these include the Enterprise, Global Tech, Global Equity Income, Research, Triton 40, and our Emerging Markets funds. It's quite a diverse collection of funds, including funds from both legacy Janus and legacy Henderson.

Lastly, it goes without saying that we, like the rest of the industry, continue to be evaluating the ongoing changes being laid out by the various regulatory bodies across the globe, as well as monitoring the impact of the UK's exit from the European Union. With respect to Brexit, the end destination and arrangement is still up in the air. It is a bit challenging to know what specific impact it will have on the asset management industry and, therefore, on Janus Henderson.

However, we believe that we are in a reasonably good position on an operational basis and we also have funds based out of both Luxembourg and Dublin so we do not have to start from scratch in order to continue distributing in Europe in a post-Brexit world.

Second on the list is MiFID II, which is clearly top of mind across the industry, particularly in the UK and Europe, as companies evaluate the impact this new regulation will have on our businesses. And this is particularly on the treatment of research commissions.

At Janus Henderson, we have devoted a significant amount of resources over the last two years to evaluating new requirements under this change. Today, whilst we do not pay hard for research and the systems and processes allow us to continue that approach from the first of January, we will continue to evaluate the situation and, most importantly, will be listening to what our clients need.

Third, the final findings of the FCA Asset Management Market Study were largely as expected. And we strongly support the FCA's objective of ensuring our clients are served in a competitive, accountable, and transparent manner.

We are analysing and evaluating the proposals in the accompanying consultation papers from the FCA to assess the possible impact on Janus Henderson, though we don't expect any change to previous comments we have made on this.

Lastly, shifting to the US markets, with the implementation of the DOL's fiduciary rule midstream, our deep roster of intermediary clients will be significantly impacted by the standard. And it has been our intent the last three years to assist these clients as they navigate the proposed landscape.

At Janus Henderson, we continue to evaluate product adaptations primarily through share class enhancements to suit the needs of our clients.

If we move on to slide four and investment performance, on this slide we have put together some new summary investment performance metrics that outline the percentage of our firm-wide assets under management as well as each capability that is outperforming its respective benchmark over the one, three, and five year time periods.

Since this is the first time we are presenting this slide to Janus Henderson, there are a few important items here to note.

First of all, this disclosure captures approximately ninety-six percent of total firm-wide assets, making up a very representative sample set of the performance for the firm. And the results reflect performance gross of fees.

We have included the history on the investment performance in the appendix for your reference. Also in the appendix we have included the breakout of the percentage of our retail assets under management that are in the top two Morningstar quartiles, which is done on a net fee basis.

So, if we turn to the results that are shown on this page, as I mentioned on the outset of this call, investment performance has improved on a firm-wide basis since the beginning of the year. And this is a testament to the strength of our investment teams.

As of the thirtieth of June, sixty-nine percent, seventy-one percent, and eighty-nine percent of firm-wide assets were outperforming benchmarks over the one, three, and five year periods, respectively. This result compares favorably to the end of 2016 when we had forty percent, fifty-six percent, and seventy-seven percent, respectively.

Now, let's look at performance by capability. In our equity strategies, we saw some significant improvement. As of the thirtieth of June, sixty-eight percent, seventy-seven percent, and eighty-four percent of firm-wide equity assets were beating benchmarks over the one, three, and five year periods. This compares to thirty percent, fifty-seven percent, and seventy-four percent at the end of December.

The most pronounced change was on a one-year basis, which saw an improvement of thirty-eight percentage points, driven by outperformance in the continental European Equity Selected Opportunities, UK Balanced, Cautious, Smidcap Growth, and Global Research strategies.

If we now look at INTECH under our quantitative equity business, the numbers on this slide do not quite tell the full story. But after serious underperformance in the second half of 2016, we are pleased to report that in the second quarter INTECH had another strong quarter of investment performance. On a year-to-date basis, which is admittedly a very short term period of time to consider, 100 percent of its strategies are outperforming their relative benchmarks.

Six months of outperformance does not fully address the challenges INTECH faces, but it is a good start.

One other point I would like to call out on INTECH before moving on is the three-year result. As of the end of June, forty-eight percent of the assets were outperforming their respective benchmarks over the three-year period. And while this end result is not where we need it to be, it is a meaningful improvement compared to the prior quarter when only twelve percent of assets were beating their respective benchmarks.

The marked change quarter over quarter was driven by the US Enhanced Trust strategy, which is INTECH's largest strategy at approximately $10 billion, which is now outperforming its benchmark. We are pleased INTECH has posted a strong recovery so far in 2017, but recognise the need to consistently deliver results over the long term. We remain confident in its investment process and its ability to generate positive results for our clients.

Now, moving on to client flows, on slide five we have laid out the historical quarterly gross and net flow results for the total group over the last six quarters. As you can see, in the second quarter total group net outflows were $1 billion, which represented an improvement of nearly $6 billion from the last quarter and an improvement of $900 million from the similar period in 2016.

As an organisation, Janus Henderson is driving towards achieving outpaced organic growth and market share gains. This aggregate result is not where we'd like it to be and we have more work to do, but we are encouraged by the near-term progress.

As you can see in the graph, the quarter-over-quarter change was driven primarily by a twenty percent reduction in redemptions. We saw the biggest quarter-over-quarter improvement among our equity and quantitative equity capabilities, and I'll get into further detail around the drivers of each capability on the next slide.

On a regional basis, the strongest region of business in the second quarter was EMEA, which had $2 billion of positive net flows during the quarter compared to $1.3 billion of outflows in the first quarter. The quarter-over-quarter change was driven by a twenty-eight percent reduction in redemptions and continuing healthy growth sales.

Looking at total group flows by client type for the quarter, we had modest outflows in each of the three channels -- intermediary, institutional, and self-directed.

Moving on to the flow picture by capability, which is set out on slide six, on this slide we have outlined for you the second quarter flows by capability. At Janus Henderson, we'll be primarily using these five capabilities to discuss the business going forward, and further details on this can be found in the appendix.

Looking at the equity business, which is the largest capability in terms of assets with over $170 billion as of the end of June, in the second quarter net flows saw significant quarter-over-quarter improvement, going from $2.4 billion of outflows in the first quarter to $1.2 billion of inflows in the second quarter.

Quarter over quarter, this improvement was the result of a twenty-eight percent increase in growth sales and a thirty percent reduction in redemptions.

Strategies that saw the largest net flow improvement compared to the first quarter included the All Cap Global Growth, Pan-European, Continental Europe, and Global Life Science strategies.

Net flows in the second quarter represented an annualised organic growth rate of approximately three percent, and this is encouraging given the pressures that active managers across our industry continue to face.

During the second quarter, we were pleased that we had positive equity net flows among our intermediary clients in both the US and in EMEA, as well as institutional clients in EMEA.

Looking forward at the prospects we see for our equity business, we have seen retail clients in Europe, particularly in continental Europe, looking to increase equity exposure as election results from earlier in the year have removed some of the macro uncertainty from the market. And in the US, we are seeing growing demand among intermediary institutional clients for more global, international, and emerging market exposure.

Moving to fixed income, in the second quarter this business had approximately $900 million of net outflows. And this compared to $300 million of inflows in the first quarter. This quarter's result did include the loss of one large mandate from a US client which totaled $1.5 billion driving the majority of the quarter-over-quarter change.

Outside of this mandate loss, we saw modest inflows across the US, Asia-Pacific, and EMEA into strategies driven by net flows into the Absolute Return, Global Unconstrained, and Strategic Bonds strategies.

Looking at the quantitative equity capability, which is made up entirely of INTECH's business, we saw a material improvement quarter over quarter in net flows; however, the business does remain in outflows.

Total net outflows for the second quarter for INTECH were $1.8 billion, this compared to $3.7 billion in the first quarter. The improvement was driven by the absence of two large losses that we saw in the first quarter, which totaled $3.3 billion. Despite the absence of these losses, I do want to highlight that we did have one sizeable loss during the second quarter that was $1 billion.

Going forward, with a largely institutional base of clients, it is difficult to predict the future for INTECH's business, as we know wins and losses will be lumpy. Today the business is not where we'd like to see it, but investment performance has continued to improve. Flows are following suit, and we're optimistic about the opportunities for this business.

The multi-asset capability had approximately $29 billion of assets at the end of June. And, in the second quarter, had approximately $400 million of net outflows, which is a slight improvement to the $600 million of outflows that we saw in the first quarter.

The alternative capability, which had a little over $18 billion of assets at the end of June, had some very good growth in the second quarter, driven by some significant flows into the UK absolute return strategy which has posted very strong performance, partially offset by some modest outflows from the property fund. In the second quarter, the alternative capability had approximately $800 million of net inflows, compared to net outflows of approximately $600 million in the first quarter.

So summarising what we saw in terms of business results in the second quarter, investment performance on a firmwide basis is showing a notable improvement from the end of the last quarter and where we'd begun the year. This improvement is most acute in our equity business, across the 1- and 3-year periods, and also in the year-to-date results around INTECH.

While total group net flows were still negative for the quarter, we are pleased that we had positive organic growth in the equity and alternative businesses, and we're encouraged by the significant improvement we saw in the flows at INTECH.

With improving investment performance and the strength of our global distribution, we are optimistic about the opportunities we see in the pipeline for the balance of this year, and into 2018.

With that said, I will turn it over to Roger to take you through the financial results.

Roger Thompson: Thanks, Andrew. For those of you following along with the deck, I'm going to begin on Slide 8. Now that we've closed the merger, we know it's important to better understand how the firm's going to report its results, and what those results will look like. I aim to address this today.

Given the requirements of US GAAP, the second quarter's results are likely to be a bit confusing to get your heads around. So before diving into the results, I wanted to take a moment to orientate you all, so that you can better understand the multiple pieces of disclosure.

Our second quarter results contain three views of the financial results.

The first is a disclosure of US GAAP, which consists of three months of Henderson results, and one month of Janus results. Now remember, for accounting purposes, Janus was merged into a newly created subsidiary company of Henderson, and the holding company was renamed Janus Henderson, which is why only one month of Janus results are incorporated in this view. This view, in accordance with US GAAP, includes all merger-related integration and deal costs incurred in the period.

The second is the pro forma US GAAP disclosure. This view shows the combined results of Janus Henderson as if the merger had taken place at the beginning of the quarter. This view also includes all the integration and deal costs that were incurred during the second quarter.

And third is the pro forma adjusted non-GAAP disclosure. This view starts with the pro forma US GAAP figures and adjusts for certain items, to present what we believe is the best way to think about the ongoing operations of Janus Henderson. The adjustments consist of the following items.

First, operating expenses are adjusted to exclude the following -- integration and deal costs related to the merger; intangible amortisation of investment management contracts; acquisition-related earn-outs and contingent consideration; and gains and losses on the disposal of operating business.

And secondly, distribution expenses are netted against revenue. This is done because we believe that the deduction of third-party distribution expenses from revenues reflects the nature of these expenses as revenue-sharing activities, as these costs are passed through to our external parties who distribute and perform functions on behalf of our products.

So we call these our adjusted results alternative performance metrics. And as Andrew said, this is the view we're going to use to discuss the financial results going forward. In order to provide you historical comparability, we've published historical results for the last five quarters on this basis, filing 8-K on July 19, which I hope you found useful.

So based on what I've just outlined, Slide 9 provides a table of the second quarter operating results under the three views. And note that View 2, the pro forma US GAAP results, includes deal and integration costs of $101 million for the second quarter. I'll get into the line item details of that later in the presentation.

Now turning to Slide 10, I'll look at a few of the financial highlights. As you can see on this slide, our second quarter adjusted financial results were strong. Buoyed by healthy market returns and strong alpha generation, average AUM in the second quarter increased 3% quarter over quarter, and 5% year over year.

Total pro forma GAAP revenue was $566 million, which was 16% better than the previous quarter. Adjusted revenue -- so net of distribution expenses -- was $482 million, which was 19% better than the previous quarter. I'll walk through the revenue drivers in more detail in a few moments.

Adjusted operating income of $200 million was 39% over the first quarter results. And the adjusted operating margin for the quarter was 41.4%.

Finally, adjusted EPS for the second quarter was 68 cents, up 36% from the 50 cents in the first quarter. As I'll explain over the next few slides, second quarter revenues included near record level performance fees, and expenses that were running a little below normal levels. So unless those repeat, we wouldn't expect this level of EPS in the third quarter.

On Slide 11 we have a look at the top line drivers. As I mentioned, total adjusted revenue increased by 19% over the prior quarter. This increase was driven by higher management and near record level performance fees.

The net management fee increase was the result of higher average assets, coupled with a higher net management fee margin for the quarter of 44 basis points, compared to 43.6 basis points on a pro forma basis in the first quarter. The slight expansion in net management fee margin in the quarter was a result of a mix shift in the business.

The other significant driver of the revenue increase was quarterly performance fees of $52 million, which represented at $51 million increase quarter over quarter. I've broken this out for you between the fulcrum fees on the US mutual funds and all other performance fees in the table on the bottom left of the slide.

Since we have a diversified mix of funds with performance fees, I wanted to give you a little bit more insight into what drove the fees in the second quarter, and I've done this on Slide 12. We have performance fees on a broad range of funds and accounts. In the second quarter, performance fees were generated on 72 different funds and accounts, which collectively had $65 billion in AUM.

Before walking through the individual parts of the performance fees, I wanted to point out that in the second quarter we have a disproportionate amount of AUM that pays performance fees, especially in the SICAV product range. So while the levels experienced during the quarter are not unrepeatable, they are much higher than you would expect for future quarters.

Breaking the fees down into pieces, the performance fees from the SICAVs in the second quarter were $30 million, compared to $8 million in the first quarter. The increase was the result of second quarter seasonality in our long-only SICAVs, which pay annual performance fees in June; and this year, had a performance carry-forward from 2016 as a result of performance being below their absolute high water mark a year ago.

Additionally this line reflects strong performance from the Gartmore UK Absolute Return Fund, which has a quarterly performance fee cycle.

Second, performance fees on the OEICs and unit trusts in the second quarter were $14 million, compared to $3 million in the first quarter, driven by strong performance in the UK Absolute Return Fund.

Third, performance fees in the investment trust product range during the quarter were a little over $8 million, compared to zero in the first quarter. Again, this was driven by second quarter seasonality from funds that pay an annual performance fee in May.

Private account performance fees in the heritage Janus accounts were $5 million in the second quarter, compared to the negative $500,000 in the prior quarter.

Lastly, the US mutual fund performance fees, which are fulcrum-based and can be positive or negative up to 15 basis points depending on rolling three-year performance relative to a benchmark.

Reflecting the improved performance Andrew's just talked about, we had a negative $8 million in the quarter, compared to a negative $13 million in the first quarter. The improvement quarter on quarter was driven by several funds, but most notably the Research, 40, mid-cap value fund. While still negative, the quarterly result is the best figure since the third quarter of 2015.

Whilst we can't predict future performance fees, as they are performance-dependent, the takeaway from this slide is that the third quarter and the fourth quarter do not have as much AUM subject to performance fees. So all things being equal, we'd expect to see a lower amount in the second half of the year. In the appendix you can also see the historical performance fees for the prior five quarters.

Moving on to operating expenses, there's a lot to address on this slide. So let's start with the adjustments that have been made to the results. The second quarter had multiple adjustments coming out of operating expenses, which were associated with the deal and integration, as well as some non-deal costs. So let me walk you through each piece.

Firstly, employee comp and benefits had $25 million of costs adjusted, which included $24 million of severance costs associated with the merger, and approximately $1 million associated with earn-out payments for prior acquisition and other non-deal items.

Second, LTI of $13 million adjusted, which was the result of the acceleration of prior grants from departing employees associated with the merger.

Marketing had $14 million of adjustments, largely associated with the proxies for the US mutual fund merger.

Fourth, G&A had $50 million of total costs adjusted, which included $49 million of costs associated with the merger, including legal fees, bankers' fees, and other deal-related costs.

And lastly, depreciation and amortisation had roughly $8 million of adjustments which are not deal or integration costs, but reflect intangible amortisation of the investment management contracts.

In total, and excluding the netting of distribution expenses in revenues, $111 million of adjustments; $101 million associated with deal integration costs, which are part of the $65 million of deal costs and $185 million of integration costs that we previously talked about, so $250 million in total. So far, we've realised approximately $160 million of the anticipated $250 million in total costs.

After these adjustments, adjusted pro forma operating expenses were $283 million, which was an increase of 8% over the first quarter, of $262 million.

By looking at the pieces of the adjusted operating expenses, LTI was up roughly $13 million or 39% quarter on quarter. The drivers were the annual grant to employees of legacy Henderson at the end of March, and the impact for legacy Janus LTI as the firm changed its amortisation approach to a graded basis from a straight-line basis, leading to larger upfront amortisation amounts on grants.

Doing some maths for you, the adjusted pro forma compensation ratio for the second quarter was 43.2%, compared to 47.8% in the prior quarter. The decline in the ratio quarter on quarter was primarily a result of high revenue and relatively flat compensation, which reflects the impact of syncing up programs across the organisations, as well as the slight shift in the cash/non-cash mix.

Non-comp operating expenses for the second quarter saw modest increases quarter over quarter, as the organisation gets back to a more business-as-usual effort following the closing of the merger. Looking forward, we'd expect to see non-comp expenses approximately 5% higher in the second half of the year, compared to what we experienced in the first half.

Dick will discuss the cost synergies that we've executed thus far. But given that most of these were associated with the savings from a reduced combined headcount, most of which took place following the closing of the merger on May 30, there isn't much impact in the second quarter's results from synergies. We expect to see that impact costs going forward.

Turning to Slide 14, and a view of how the second quarter adjusted pro forma profitability results compare to recent quarters. As you can see, the current quarter represents strong relative results compared to prior quarters. Adjusted operating income in the second quarter was $200 million, a significant increase quarter over quarter and year over year.

I want to caution that this level of profitability is being driven by the two fundamental factors that I've already spoken about, which we don't anticipate repeating in the third and fourth quarters, at least to the same magnitude. That's performance fees and the artificially low run rate of operating expenses across the business due to the focus on the merger.

What all this means for the balance of the year is that at our current AUM level, I'd expect to see our adjusted operating margin for the third and fourth quarter come down from the second quarter levels, and will likely be in the high 30s. Second quarter EPS of 68 cents, compared to 50 cents in the prior quarter, and 47 cents a year ago. EPS growth was driven by the growth in the operating income, and effective tax rate of 28% on adjusted income, and a weighted average diluted share count of 200 million.

Shifting to Slide 15 and the balance sheet, one of the many benefits of the merger was the further enhancement of the already strong balance sheets that each firm had independently. And the chart depicted on this slide demonstrates that nicely.

At the end of June, Janus Henderson had total cash and investment securities of $1.3 billion and we are in a strong net cash position. Prior to the merger, both Janus and Henderson had similar views on maintaining a strong balance sheet, and the combined firm embraces that same belief.

As a firm, we expect to operate with minimum levels of debt and we prioritise meeting contractual obligations and reinvesting in the business before considering the return of capital to shareholders outside of the regular progressive dividends.

As we bed down the merger, we are in a near-term period of time in which cash needs are a bit elevated as we integrate the business. However, we know this business has the potential to generate significant cash flows over time.

As we get through this period of near-term cash needs and begin generating excess cash, we will then evaluate and balance the ongoing investments that the business requires with the external opportunities we see and of course returning excess cash to shareholders.

In this context, the Board of directors approved a $0.32 per share dividend which will be paid on the 3rd of September to stockholders on record at the close of business on the 18th of August.

With that, I'll turn it over to Dick for an update on our integration efforts.

Dick Weil: Thank you, Roger. With two months passed since the close of the merger, I want to update you on how we're progressing. I want to address three areas: first, integration; second, progress against the cost synergy target we have laid out; and third, areas where we see revenue growth opportunities and future revenue synergies.

Turning to slide 17, here we present on the left side of the page preparations ahead of completion of the merger. And I think it's worth just going back and reminding ourselves how much extraordinary work was done in the months leading up to that date.

We launched the brand Janus Henderson very effectively on day one across a huge range of communications, websites, etcetera focused on the ethos of knowledge shared, which is of course the successor to that same concept developed by legacy Henderson and we think it's terrific for the new company.

We rebranded 10,000 items of literature, 4,000 fact sheets, 330 or more institutional client reports. We redid over 70 websites and in a single weekend, rebranded and consolidated across 27 offices. It was truly extraordinary.

And let me echo Andrew's comments at the start, thanks and tremendous appreciation for this excellence in giving our new company such a wonderful start. So thank you all those employees who did that -- really terrific work.

So where are we today? On the distribution side, teams are engaging with clients around the world, leveraging the broadened product set. We've had exceptional training go out to teams in each region and they're getting to work on educating our clients on the enhanced opportunity sets available to them.

In investments, our investment professionals are collaborating daily, which will be incredibly important in creating a world-class investment platform. Our portfolio managers are road showing globally through the second half of 2017 to get out and meet our clients.

Looking at our trading platform, by the first quarter of 2018 we are seeking to have a single integrated trading platform for our investors. Looking at other infrastructure, also by the first quarter of 2018 we're seeking to finalise our middle and back office platforms.

So what's the takeaway? A tremendous amount of work has been done but a lot remains. We're progressing well towards a fully integrated firm.

Turning to slide 18, let's talk about cost synergies. As of June 30, we have already realised 57 million in annualised run rate cost synergies, primarily from reductions in head count, as Roger mentioned.

We now anticipate approximately 85 million of annual run rate synergies will be realised in the first 12 months following the merger, which is an increase from the 80 million we previously stated. We are reaffirming the at least 110 million in annualised run rate cost synergies by the end of year three.

Turning to slide 19, let's look at the revenue growth opportunities and the revenue synergies that we're hoping to realise in the future. We think of these opportunities in three stages.

First, and coming most quickly, our great partners and owners at Dai-ichi Life have funded $350 million already into two legacy Henderson strategies, global growth and European corporate bonds.

Stage two is cross-sell opportunities. And this is what we're working on currently. Enhanced distribution strength is obviously at the heart of this merger and with our nearly 600 distribution staff worldwide, we can leverage opportunities that didn't exist before.

Some examples of this include we can sell global equity income or international opportunities more effectively through our enhanced U.S. intermediary channel than legacy Henderson was able to do previously.

We're able to take existing products and launch them in alternative vehicles. For example, our global life science strategy can be repackaged and made available to U.K. clients as a local OEIC.

Third, the combined firm has additional sales resources where the legacy firms had gaps. As an example, we now have an enhanced European institutional sales force to be closer to our clients and build better relationships around continental Europe.

Looking at stage three, this is the stage that we would expect to take years, to take the most time. But the work that you do now creates those possibilities in the future. So we don't expect to have too much to announce too quickly but rest assured, we're hard at work.

An example of current developments, an INTECH they're beginning to offer a new absolute return strategy, a long short equity strategy, as a new product.

So summing up page 19, slide 19, it's going to take some time to deliver on the revenue synergy aspirations that we have but we're off to a good start. And we must say particular thanks to our great partner and owner, Dai-ichi Life.

Turning to slide 20, in conclusion, let me sum up the quarter as I see it. First and most importantly, we're seeing improved investment performance. And the strength of our global distribution teams working with that improved investment performance gives us optimism around the potential for our very bright future in the second half of 2017 and beyond.

Second, total group net flows have improved significantly. They're still negative and they're not where we need them to be. But we're pleased with the organic growth shown in the equity alternative businesses and we're encouraged by the dramatic improvement at INTECH.

Third, the financial results are strong and they demonstrate the leverage we have as a larger and more diverse firm.

Fourth, we feel that we are in a good position to deliver on our promises that we made as part of the merger. We are realising the cost synergies that we described. We are working well towards an integration and the execution has been successful so far.

And we are on track, we believe, and hope to realise revenue synergies over the coming years. We're very encouraged by what we're hearing from our clients. So we look forward to keeping you apprised of the progress we're making as we go forward.

With that, let me turn it back to the Operator for questions.

Operator: Ladies and gentlemen, at this time, we will conduct a question and answer session. In the interest of time, questions will be limited to one initial and one follow-up question.

If you would like to ask a question, please press Star 1 on your phone now and you will be placed in the queue in the order received. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment.

Once again, please press Star 1 to ask a question. And we'll pause for just a moment to allow everyone an opportunity to signal for questions.

Our first question comes from Mike Carrier with Bank of America - Merrill Lynch.

Mike Carrier: All right, thanks, guys. And thanks for all the - you know, the information and disclosure. Roger, maybe a first one. I just wanted to make sure I heard you right on, you know, some of the things in the second quarter, you know, versus the third and fourth quarter. So I get the performance fees, you know, normalising a bit and the non-, you know, comp expense normalising bit.

I guess on the 57 million, you know, that you guys realised in synergies, was that mostly in like the second quarter in terms of a full, you know, run rate, you know? Or is that going to be fully in like the third quarter, meaning as comp, you know, more of a downward bias, you know, or upward bias given that - you know, that run rate?

Roger Thompson: Yes, thanks a lot. Yes, the majority of the savings we made were obviously on merger and people left us in - at the end of May or in early June. So the majority of that is still to come through.

Mike Carrier: Okay, got it. And then just as a follow-up, you know, for any of you guys. I guess just on the flow picture, you know, significant improvement, you know, quarter over quarter. I mean, you give a lot of, you know, clarity there.

Just when you're talking, you know, through, you know, with the clients, you know, just given that the integration is ongoing, you know, any, you know, indication on the outlook, you know, for demand on the positive side, you know, just given the improvement that we've seen in performance over the past six months, you know, some increased demand on the European side, but maybe on the negative side as you go through integration some clients being a little bit more hesitant, so I know it's always tough to predict, you know. But just any insight on, you know, what you're hearing from, you know, the clients and then the distribution side given the progress.

Andrew Formica: Thanks, Michael. It's Andrew here. A couple of things. I think as we move through the quarter with the merger actually completing, the noise about talking to clients about the merger, the proxy votes and all that passed and we moved into being able to talk about the investment processes, definite strategies and our outlook for markets. So, you know, that was sort of partly the improvement, you know.

We had had some redemptions where we affected investment teams that were more in the sort of fourth quarter or first quarter of, you know, fourth quarter last year, first quarter this year. And obviously we're through the majority of that because we were very up front with where there was any overlap in the investment teams.

You also had obviously the improvement in investment performance with INTECH and INTECH's been very good at communicating to their clients. So that saw, you know, that improvement.

And you also saw a sentiment shift particularly in Europe where, as you moved through the first half of this year, the fact that the election results have been much more towards the traditional parties or in pro-business, less extreme parties. You've got greater confidence returning to just people investing generally, of which we benefitted through a number of our product sets.

You know, in terms of on the ongoing negatives, you obviously still have some of the consultants will probably wait through to the rest of this year before they take up any sort of watch that they have on the firm. That doesn't affect a lot of the institutional clients we talk to but it will impact some. And that will take a little while to be removed.

And as we highlighted, the shift towards passive, particularly in the U.S. market, continues to be at elevated levels. So whilst strong performance and good relations should help in some products, it's still a tougher market in the U.S. for active versus passive flows still today.

Mike Carrier: Okay, thanks a lot.

Operator: Our next question comes from Andrei Stadnik with Morgan Stanley.

Andrei Stadnik: Good afternoon. Thank you for the clarity on the results. I just wanted to ask a couple of questions. The first one, just a quick one on synergies. The pathway from $57 million run rate to $85 million at the end of 12 months, is that likely to be in a straight line? Or is this still going to be accelerated with more of that pickup coming in the earlier quarters?

Roger Thompson: It's probably a relative straight line. You know, there is, you know, things we're continuing to do. We have more on the non-comp side but I think straight line is probably as good as anything else.

Andrei Stadnik: Thank you. And then just in terms of the feedback from the Asian and the Japanese clients, you know, can you talk a little bit about what kind of flows might have come in during this quarter? And also the Henderson funds are new to the Asian distribution vehicle. What kind of feedback are you getting on those funds and opportunity for them?

Dick Weil: Andrei, Dick Weil here. I missed the second part of your question. Let me hope Andrew heard it and he can cover for me. I'll answer the first part around Dai-ichi.

Dai-ichi's original investment, which we highlighted in the comments on this call, happened in the first quarter and so they're not in this result. So there's no significant Dai-ichi investments in the flow results in this quarter.

Andrew Formica: He's saying what about the Henderson funds with Dai-ichi?

Dick Weil: Oh, what do Dai-ichi like of Henderson products is apparently the second question. I think we have to understand that for the most part, Dai-ichi invests with an insurance general account. That's their biggest pot of money. And like most insurance companies, the combination of regulation and accounting means that their first instinct, their first need is always going to be on the fixed income side. So, you know, there's always a bias there.

But they've been good about investing in some of our equity products and so those… And even have started to take a look at some absolute return and alternative products. So, you know, I don't think we can be overly specific but right now, as at the end of June, they had 45% invested in quantitative equity, 41% in fixed income, 14% in equities, and maybe a percent or so in alternatives was their end of June mix. And they continue to be great partners and look at a lot of stuff. And so we'll just see how it develops.

Andrei Stadnik:: Thank you so much.

Operator: Our next question comes from Kieren Chidgey with UBS.

Kieren Chidgey: Hi, guys. Kieren Chidgey here from UBS. Roger, I just wanted to go back to some of the comments you made around costs and just looking at the staff comp ratio in particular, it looks like it was about 43% in second quarter, down from around 47% last year and in first quarter. Is that largely a function of the performance fee outcome in the quarter plus, obviously, the initial staff related cost synergies coming through? Or is there a slight downward bias to staff comp ratio levels under the new combined entity?

Roger Thompson: It's three aspects. It's the first two you've talked about so strong revenues obviously helped there, the synergies we're making in the business, and there is a slight true-up between Q1 and Q2. So the average of those is probably sort of where we're headed for this year.

Kieren Chidgey: Okay, also just on MiFID II, just can you confirm sort of the approach there? I think Andrew was suggesting the approach is to take it through CSAs rather than through the P&L. But just interested in any commentary on where you see peers moving in that regard and sort of how confident you are that that's a sustainable position?

Andrew Formica: It's Andrew here. Look, I think, as it stands today, the rules and the way we could apply them, and the systems we have mean that policies and principles we've adopted in the past can be adapted to continue, which means that we can, through transparency and disclosure, we can continue to use the research budgets that we set up and to pay that. There is a lot of talk out there about whether clients demanding changes or somehow see some competitors come out with the decision that they will go hard.

Obviously, we evaluate and watch the space. If there's any change that developed from that, we would let you know but as it stands today, it's our belief and our working assumption that we can continue through the rules to adopt our systems to take it hard, and we don't intend to change the position we have.

Kieren Chidgey: Is there any delta on the admin costs or just given the prep costs you've been absorbing over the last year or two, should we expect fairly minimal delta to come through?

Andrew Formica: I think we've said in the past that MiFID II implementation costs, which aren't just the research side, it's the whole remit of reporting and what you have to do, we're quite -- we're around sort of ten million pounds for the group level over the life of the project. So that will continue into 2018, those costs, and if you think will that lead to a reduction going forward, you have to assume that other regulatory changes, will absorb that. So my working assumption that whilst there has been an elevated level of cost associated with some of the regulatory changes, particularly with MiFID II, I wouldn’t see a drop down in terms of run rate. That's just being prudent.

Kieren Chidgey: Thank you.

Operator: Our next question comes from Patrick Davitt with Autonomous Research.

Patrick Davitt: Good morning, guys. Thank you. It sounds like most of the performance fees this quarter came from absolute return funds, which were specifically called out by the FCA in their review. Could you give us the total AUM in these strategies across all of the vehicles and how you think they're positioned through the lens of what the FCA here is most concerned about, which I think is benchmarking, how the benchmark is calculated and how the performance fee is calculated.

Andrew Formica: Patrick, we may actually be able to take that offline and get you the detailed numbers. The FCA obviously looking at the U.K. product lineup rather than global and that's a subset of what we would have under our alternative basis. But they are also looking at, there's a benchmark of which they've measured over, which ours will typically have a LIBOR benchmark in there. It's too early to say, as well, given the consultation of what the extent will be.

There's some discussion about whether if you have a target, your performance fee should only be above the target but a lot of it is more around just transparency and clarity of what your performance fee is based on. And we believe that the disclosure that we have on the fund is appropriate and matches the needs that the regulator has when they've come out with some examples. They're not examples that would be consistent with our practices, when they've talked about examples they need to change.

But in terms of the exact split of how much would fit under the remit of what the SCA has in their market study, let us come back to that. I'll get the IR team to come back to later today.

Patrick Davitt: Great, thank you. My follow-up is around the cash and equivalent number you gave today. How much of that would you consider kind of truly free? In other words, not needed for capital requirement or the seed program?

Roger Thompson: So it's really the -- take the big difference between the raw cash and the debt levels. I think that's your simplest measure there. So most of that is 684 versus 439. The investment securities is largely big pieces, our seed capital position. That's the largest piece in there. Obviously, that is variable but that's an area where, as Dick talked about in his business, we'll look to continue to invest in the business.

Patrick Davitt: Great, thanks a lot.

Operator: We'll take our next question from Dan Fannon with Jefferies.

Dan Fannon: Andrew, I was hoping you could expand a bit upon your flow commentary, in particular you were rather positive on the kind of near term outlook for retail flows both in the U.K. and U.S.? And then historically for Janus, the institutional backlog was just INTECH. Just wondering if you could give a comment broadly about the institutional backlog for the combined entity.

Andrew Formica: Look for the U.S. there, I think I sort of highlighted that the passive flows continue to sort of be the largest growth element in the U.S. marketplace. And so I think that's a trend that has been in place in the market and probably been exacerbated by the introduction or implementation of some of the DOL positioning that some of the advisors are doing. So I don't see that changing for the rest of this year, but obviously, one of the big improvements year-on-year has been the active investment performance. Where if you remember, we spoke at the beginning of this year, 2016 was a pretty tough year for active managers as a general industry and I think that was really as the indices were pretty much top quartile, in some cases top decile.

What you've seen so far is that 12 month rolling figure is now dropped where the indices are now around the median. So there are far more active managers outperforming the benchmark and therefore demonstrating the worth of active management versus passive, which you also see in our investment performance numbers. So I think that will bode well for the future, but I'd say in the short-term, the trend of passive flows being quite strong in the U.S. don't look abating.

I think to your point on the U.K. and Europe, we did see markets the back end of last year and the first quarter of this year really just sit on their hands given the election cycles that we had where you had the U.K. election results or the European results and what you started seeing is those are now passing, that there definitely is a pick-up in activity, which has reflected in our second quarter numbers. And for us as well, I think the added benefit of having the merger complete and rather than having to deal with the merger related conversation with clients and talk much more on the business as usual is also benefiting from us.

So I'd say the picture is that the U.K. and Europe look a more encouraging environment than just gross sales than it has for a little while, and the U.S. will continue to have passive penetration at relatively high levels for the foreseeable future.

Dan Fannon: Okay, thanks and then just on capital return, understand the comments on the dividend in the near term, kind of priorities of seeding product and investing in the business. I guess is there still a belief to kind of offset dilution in terms of buybacks or when is a reasonable time period to think about a broader capital return with share repurchases?

Roger Thompson: I think we're a month into the transaction and we do have a relatively sizable amount of cash outlay from the deal. So what we've laid out today is a regular dividend and we've laid out the broad categories for that. But as we said, these businesses are very cash and capital generative and if we don't have a better use for capital or true excess cash and capital going forward, then we'll be discussing with the Board at the right time around how that should be returned. But that's not really a discussion for now.

Dan Fannon: Got it. Thank you.

Operator: We'll take our next question from Alex Blostein with Goldman Sachs.

Alex Blostein: As we kind of roll through the earnings season here, most of your larger global competitors talked about the increased need for investing and obviously, that's in line with the whole idea of the merger and the scale for you guys. But as you think about the areas where you will need to invest, whether in the technology, analytics, infrastructure, distribution side, et cetera, how should we think I guess about the gross pace of expenses -- of expense growth, I guess, over the next couple years kind of pre-synergies?

Roger Thompson: Again, like I said, I think I'll reiterate we're a month or so into the merger. Dick and Andrew have talked about where we may find more savings and want to reinvest in the business, and I'd reiterate that this is a merger that's done really for growth and we will be investing in the business in the areas that we think we need to, and will generate good return over the long-term.

The work we're doing around the merger is also taking us some of that journey so we're not just looking at one or the other. We're looking at improving things and taking those steps forward, so investing in technology and other areas as we go through the merger. So I wouldn't just view the merger costs as standing still. We are looking to advance the path of that. But I think again it's probably better for us to come back as we go through this year and talk about growth in next year more with Q3 and Q4.

Alex Blostein: Got it. And then on the organic growth backdrop, I guess two questions sort of related. I guess one, when you go through the integration and you talk to the sales folks on the products I guess they feel they can get most traction in either channel, in the U.S. retail side on the non-U.S. retail side, I know Dick highlighted the global equity fund. Anything else of note we should be focused on as we think about areas of incremental organic growth from this combination over the next 12 to 18 months?

Dick Weil: Well, I think we highlighted a few more things than that. The global equity dividend, selling in the U.S. is obviously an opportunity, taking our Life Sciences from legacy Janus side and selling that in addition through some of the Henderson relationships I think is an opportunity. I think Henderson has brought an exciting opportunity with their Emerging Markets management that has been gathering assets and hopefully will continue to do so.

And I'm leaving off many more, When I get off this call, there will be a lot of angry folks because I didn't say all of them. So I think there's a huge range of things that we have an opportunity to do more with and we're client led. So most importantly, it's where are the client appetites and the good news is we have real strengths in such a broad cross-section of things that it's quite likely we'll be able to match those up very well and be good partners for our clients. So we're optimistic about not just those named products but lots of others.

Alex Blostein: And the last one I guess just around the organic growth. On the INTECH side, so clearly performance improvement is very encouraging year to date. Do you guys think this is enough, just talking to larger institutional clients in this business, whether or not that's sort of enough to keep them put? Or the underperformance from last year could continue to weigh on redemptions?

Dick Weil: I'll say something about INTECH and then Andrew perhaps can talk about some of the other parts of the business. On the INTECH side, they've built a pretty good sized hole in the second half of last year with underperformance. They put up two good quarters this year digging depending on the strategy you look at, one-third, one-half, or a little more than a half out of that hole, and that's encouraging. But it's fair to say that those clients have experienced still net negative performance and more volatility than they would have preferred. And so you have to view that as their continuing to work towards health and there’s still exposure with that client base.

So you know, we have still be doing our absolute best to continue to move forward and get past some of those problems that we’ve had. I think, that’s going to go on for some time longer until we can totally put that behind us.

Andrew Formica: I'm positive Alex that INTECH has been adapting their process to new areas of the market and we're starting to see new success in areas in long short alternatives on their process where they've won a couple of mandates in that. There looking to launch some vehicles that will enable us to capture more assets and that will take a while to build. It's one of the things we talked about in this revenue synergies area. Actually repackaging some of the processes either in a new market or new ways to access that.

A lot of INTECH strategies are U.S. large-cap equities which is a space that's getting hit pretty hard by passive. But actually as they move into long short equities they're seeing some considerable interest in that. The work they've done on that looks to be a making it very interesting product and you wouldn't be surprised the margins are much higher than some of the margins they have on their existing businesses.

So it will take a while for the new products like that to kick in. But so far we're actually able to make those investments and get those funds up and running pretty quickly out of the gate and the merger closing and it's then about positioning them for future growth notwithstanding the points Dick made about making sure the investment performance delivers for existing clients.

Alex Blostein: Got it. Thanks a lot guys for taking the questions.

Operator: Our next question comes from Nigel Pittaway with Citi.

Nigel Pittaway: Hi. First question, can you talk us through the impact that performance fees has now on the comp expense and presumably that has changed a bit as the result of the new compensation scheme with the merger.

Roger Thompson: Nigel some of those performance fees have slightly higher compensation aligned with them. But again you know it's a smaller part of the overall pie now. I think performance fees represent about 11% of revenues this quarter and is coming from a position of a very diversified product set. It's a smaller part of the overall.

Nigel Pittaway: Are you still seeing in the 2Q comp expense, the impact to that?

Roger Thompson: I wouldn't regard that as anything major Nigel.

Nigel Pittaway: All right. Okay. Fair enough. Secondly, just on the tax in the pro-forma Q2 Income Statement doesn't seem to be a blended rate. It's up close to 35% so why is that high?

Roger Thompson: On the pro-forma, it's 35% because a large amount of the deal costs are non-tax deductible. On the pro-forma adjusted basis, the way we really described in the results, so excluding the deal costs, the tax rate is 28% which is pretty much a blend of the UK and the U.S. rate.

Nigel Pittaway: Okay. And then, I mean my understanding was the $110 synergies target which I believe is influenced by the requirement to audit for the merger documentation, that audit requirement probably dissipated a little bit. Were you not tempted to update the target now that the audit requirement is not so stringent?

Roger Thompson: I think in terms of you know we look at. All we've done is promise we'll deliver at least $110 million to shareholders and that's a reduction in expense. What we need to do is continue to understand where we might want to invest in the business. So yes. Forgive us a little bit, but we want to work out where we want to take the business and where we might want to invest before increasing that number.

Nigel Pittaway: And maybe just finally on the dividend which used to be quite skewed to the second half. You obviously paid a much higher second quarter than first quarter. How should we think about the skew of dividend between quarters?

Roger Thompson: I guess you would expect us to follow a more U.S. line of a quarterly dividend which is equal through the year. It may change. But that's the norm for a U.S. business, a U.S. listed business.

Nigel Pittaway: Okay. Thanks very much.

Roger Thompson: Thank you.

Operator: Our next question comes from Robert Lee from KBW.

Robert Lee: Thanks and good morning or good afternoon whatever the case may be. First question maybe focusing a little bit in the U.S. on positioning for the DOL. One of the things that you hear pretty much across the industry, the importance as DOL gets put in place of having a good SMA business, model portfolios. Can you maybe just update us on in the U.S. how you think about your SMA business or your penetration and model portfolios or is that a place you see a need to make some incremental investment?

Andrew Formica: Starting with the facts, I think our current SMA business in the United States is pretty darn small. I don't have the number right in front of me, but it's a pretty small segment of the U.S. business. Looking ahead we've done some research on various ways to participate in the model business providing models to various folks. We have some extraordinary asset allocation talent with Myron Sholes and Ashwin Alankar on the Denver side and others around the firm doing interesting things in asset allocation.

And so, you know we're going to in the months ahead take a hard look at where we think those opportunities are best in the U.S., UK and Europe but also in other countries and see if there are opportunities for us to expand that business.

I would say it was an area sort of understudy currently and you know we don't have anything to share at this moment. But hopefully in the months and year ahead we might have some more to say on that.

Robert Lee: Okay thanks. And maybe as a quick follow-up understand that that Dia-ichi has been a good partner. They've clearly invested in the first quarter more dollars in the Henderson products but is there any reason to expect that - it doesn't seem like they have so far, is there any reason to expect that they won't ultimately take their ownership up to their intended levels? The latest data doesn't seem to suggest post-merger that they have re-established their higher stake.

Dick Weil: Yes. They are an insider. So when they buy, they will be making appropriate filings, the Forms 3, 4, 5 in accordance with the Section 16 securities laws. And as far as we know they haven't bought up since the deal. They have stated their intention that they will return to a 15% to 20% stake over time and we hope and expect that will be true, but we haven't yet seen the buying coming through in the pipe.

Just remember they're a very large and successful Japanese insurance company which has the pressure of long-term very, very low rates in Japan and an ageing population. So you can imagine their general account assets are under some - there's competition for uses of capital and so we expect they'll get around to buying some more shares as and when they can, but we like you find out about that through the filings and we haven't seen any come through.

Robert Lee: Right. Thanks for taking my questions.

Operator: Our next question comes from Simon Fitzgerald with Evans and Partners.

Simon Fitzgerald: Good morning just a question for Roger maybe. I just wanted some confirm that there was $101 million worth of adjustments. Was that in the second quarter or was that for the half and if not, what was the number for the half.

Roger Thompson: That's for the quarter. I think there is $160 million inception to date and the vast majority of that is in the first half of this year. The big costs for the deal coming through in the come through in the second quarter and some of the larger amounts, the proxy process in the US and obviously severance around the changes we made in people in the second quarter. So there's a significant amount in Q2, smaller amount in Q1 and we're still within, certainly in line with the $65 million of deal costs that we talked about for the deal and $185 million of integration costs.

Andrew Formica: So $101 million in the quarter, we'll give you a breakdown for the two quarters on a pro-forma basis.

Simon Fitzgerald: Oh that would be great. Perfect. And also a follow-up on a performance fees. Obviously the fulcrum performance fees have come back quite significantly understanding the other performances has some timing issues outside of that. What are your expectations for the reductions for those fulcrum performance fees.

Roger Thompson: Like you said they're a little easier to model because they are three year performance and three year rolling performance so you've got good line of sight over the next three to six months because you've effectively got 30 or 33 months of those baked in. But obviously you have performance rolling off and performance adding on which will change that.

We've got a relatively mixed Q3 rolling off and a pretty good Q4 rolling off. So we've got to add a little bit of alpha to stay at the level we're at. But so you wouldn't expect it to move dramatically but like I say a good Q4 rolling off. So we need to add a little bit of alpha to keep it where it was in Q2.

Simon Fitzgerald: All right. Thank you very much.

Operator: Our final question comes from Ken Worthington with J.P. Morgan.

Ken Worthington: Hi thank you for squeezing me in here and just a little one. You have a nice slide on the number of funds and the AUM generating performance fees in Q2 and I understand the comments about the expected direction over the latter part of the year. But what does the AUM look like that pays fees in 3Q, 4Q and 1Q? Just hoping to get a better sense of the fees now all else being equal.

Roger Thompson: Q3 is the lightest. Q4 is a little bit heavier particularly with some of INTECH which has a bias to Q1 and Q4. Q3 will be our lightest quarter from a seasonality point of view. The quarter's probably run Q2, Q1 and Q4 then Q3 for the lightest.

Ken Worthington: Okay. Awesome. That's it for me thank you very much.

Operator: And that concludes today's question and answer session. At this time I will turn the conference back to our speakers for any additional or closing remarks.

Andrew Formica; Thank you operator. Thank you all for taking the time to look at our maiden set of results. While there's a still a lot of progress to do, I think you can see coming through the results, the key reasons that we were so excited about the merger when we announced it and trying to make good progress on there.

I guess the most pleasing thing for us is the investment performance recovery which you know is testament to how well the investment teams are working together and how they were not disrupted through this. That will ultimately lead to an improvement in the flow picture. You're starting to see our quarter on quarter improvements, but still not where we need to get to and where we want to get to, but we're pleased with how the distribution teams are working.

The third area that is one of the key drivers of the merger was the financial strength of the business and again you can see through the improved financial performance and the strength of the balance sheet and the ability for us to invest that's finally come true.

Whilst there's still a lot of progress to make, we're very, very happy with the progress to date and you know there's definitely a good momentum to the business. The day one merger has gone as well as we could have hoped to get the brand out there and we've been able to accelerate a lot of the decisions we need to make and start to implement those. So still a lot to do but I'm pleased with where we are to date.

So with that. We'll hand it back and happy to take any further questions you may have through the IR department over the coming days. Thank you.

Operator: And this concludes today's conference call. Thank you for attending.