Janus Henderson
GROUP PLC

Janus Henderson Group plc – 3Q17 results conference call
Thursday 9th November 2017

Operator: Good morning. My name is Derek and I will be your conference facilitator today. Thank you for standing by and welcome to the Janus Henderson Third Quarter 2017 Earnings conference call. All lines have been placed on mute to prevent any background noise. After the speaker's 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 recent filings made with the SEC. Janus Henderson assumes no obligation to update any forward looking statements during the call. Thank you. Now it is my pleasure to introduce Dick Weil co-Chief Executive Officer of Janus Henderson. Mr Weil you may begin your conference.

Dick Weil: Welcome everyone to the third quarter earnings presentation for Janus Henderson Group. With me today are Andrew Formica and Roger Thompson. For today's call I will give my thoughts on the quarter. Our CFO, Roger Thompson will walk through the quarterly financial results and Andrew will then provide his view and an update on integration efforts as well as an overview of the very exciting deal announced with BNP today. Then as always we will take your questions.

Turning to the third quarter from my point of view. First, our investment teams are delivering exceptional investment results which provides a nice foundation, a solid foundation for future growth. Second, successful client engagement is leading to stable relationships and is translating to net inflows. Third, our integration efforts are proceeding well ahead of expectations. That's particularly underlined today by the expansion of the long-term strategic partnership with BNP Paribas.

We were very pleased to announce today that BNP will assume the responsibility for the majority of Janus Henderson's back and middle office functions in the US, something they already provide for us in Europe and in Asia. Andrew will get into more of those details later in this presentation. Lastly today the board has declared a quarterly dividend of 32 cents per share consistent with the level of last quarter.

Let me turn to a bit more detail to these pieces. Turning to investment performance. I'm extremely encouraged with the performance of our investment teams, very pleased with how the Group has integrated and have begun to share information, share research and work together. Janus Henderson is only five months old and the collaboration across teams has been growing and will continue to become more ingrained in the investment process as time goes on. There's a lot to look forward to.

There is a natural concern in any mergers such as ours about disruption leading to distractions for the investment team and resulting in some detraction in performance. But we're very pleased to see from the results, the teams have responded extremely well since the merger. They have not been distracted, in fact they've just done a superb job and congratulations to them.

At the end of September, 77% of our firm wide AUM was beating its respective benchmarks over a three year time period which is up from 71% at the end of June. This is an exceptional result and I want to thank all of our investment professionals for their hard work and dedication to delivering on behalf of our clients. Looking at performance by capability it is particularly pleasing to see the significant improvement in Intech results. After a very tough second half of 2016 which we've talked about on prior calls the team at Intech delivered very good results in 2017. At the end of September 85%, 61% and 87% of Intech's assets respectively were beating their benchmark on a one, three and five year basis. This compares with only 7%, 5% and 40% at 31 December 2016.

Performance among our Equity strategies which is of course the largest pool of assets in our firm has been very strong and was 73% and 82% of assets beating their respective benchmarks over three and five year periods. Fixed income investment performance is exceptional with over 90% of assets beating benchmarks on a one, three and five year basis. Additionally we are really excited to communicate that during the quarter we were able to hire Jim Cielinski as Global Head of Fixed Income. He’s a terrific person and a terrific professional and he’s a great addition to an already strong fixed income team. Looking at the results from our Multi-asset and Alternative teams we can see a consistent theme of strong results from both these areas as well. So I congratulate all involved on the exceptional investment results from teams across the globe.

Moving on to flows on Slide 4. The result we have seen from our clients since the merger has been extremely supportive. Going through a merger is never easy especially for clients and we couldn’t be more grateful for how they have responded. As demonstration of this support and the strength of our global distribution teams in the third quarter we had net inflows for the first time as a combined firm representing roughly 1% annualised organic growth rate.

Third quarter net inflows improved by $1.7 billion from the prior quarter and $3.9 billion from the same quarter a year ago. Looking at those flows by client type in the third quarter we saw inflows from our intermediary clients, in our fixed income and alternative strategies as well as inflows from Institutional clients which were driven by one large mandate win of approximately $1.8 billion in our Equity business.

Turning to flows by capability instead on Slide 5 Equity our largest capability by AUM experienced a second consecutive positive quarter with inflows of $600 million which included institutional mandate I just mentioned above at $1.8 billion. Fixed income had inflows of $400 million compared to outflows in the second quarter of $900 million. The second quarter included a $1.5 billion mandate loss. The absence of this loss drove the quarter over quarter change.

Intech saw further improvement in flows during the third quarter with outflows of $500 million. Relative to the second quarter the improvement was driven by a 52% decline quarter over quarter in gross redemptions. We remain optimistic about Intech's business and believe in the investment process but as it is predominately an Institutional business with many large accounts future flows are tough to predict and will be lumpy.

Multi-asset continues its flow improvement for us with $300 million of outflows in the third quarter. Lastly third quarter inflows in the alternatives capability were $500 million compared to inflows of $800 million in the prior quarter with our UK absolute return strategy driving the majority of flows. In summary we are encouraged with the quarterly results. We are pleased with our investment performance that the investment teams have delivered and optimistic about the future opportunities we see in the pipeline and the developing strength of our distribution. The third quarter represented a decent quarter for flows with inflows from intermediary and Institutional clients and ongoing improvement at Intech. With that, let me turn it over to our CFO, Roger Thompson to review our financial results.

Roger Thompson: Thanks Dick. The financial results will begin on page 7. Before I get started I just wanted to give you a quick reminder as to how we'll discuss the financial results. The third quarter results contain two views -- US GAAP and adjusted non-GAAP disclosure. We believe adjusted non-GAAP is the best way to think about the ongoing operations of Janus Henderson so that's what we'll be speaking about today in our prepared remarks.

Turning to slide 8 for a look at a few of the financial highlights. Our third quarter adjusted financial results were strong. Average AUM in the third quarter increased 4% quarter over quarter aided by an annualised 1% organic growth rate, positive markets and beneficial currency movements. Higher average assets drove a strong increase in management fee revenue which was offset by the expected seasonal decline in performance fees resulting in a 6% decline in total adjusted revenues from the prior quarter. That said on a year on year basis adjusted revenue increased 8% driven by higher average assets.

Adjusted operating income in the third quarter of $168 million was down 16% over the second quarter again primarily as a result of the seasonality of performance fees. Compared to the third quarter of last year adjusted operating income was up nearly 16%. Third quarter adjusted operating margin of 37% compared to 41.4% in the prior quarter and up from 34.8% a year ago. Finishing up the slide adjusted diluted EPS for the third quarter was 56 cents compared to 68 cents in the second quarter and 52 cents in the third quarter of last year.

On slide 9 we've outlined the revenue and the operating expense drivers for the quarter. As I mentioned total adjusted revenue decreased 6% over the prior quarter driven by lower performance fees which is partly offset by higher management fees. Performance fees in the third quarter were negative $2 million compared to positive $52 million in the second quarter and negative $2.5 million a year ago. In the second quarter we realised exceptional performance fees. However, as we discussed on the last call the third quarter has significantly less AUM subject to performance fees during the quarter so the opportunity is less. Therefore in the third quarter you saw a material decline to nearly the same result as the third quarter of 2016. To help you better understand how performance fees can change quarter to quarter based on AUM subject to fee payouts we've added some additional disclosure in the appendix which we hope you'll find useful.

Looking at management fees management fees increased 5% from the prior quarter in line with the increase we saw in average AUM. We saw some benefit from a higher net management fee margin for the quarter of 45.2 basis points compared to 44.5 basis points on a pro forma basis in the second quarter. The change in net management fee margin was driven largely by mix shift as a result of higher equity markets and lower distribution expenses. Shareowner servicing fees and other revenue were up 2% and 5% respectively quarter over quarter.

Moving on to the operating expenses. The third quarter had adjustments associated primarily with the integration as well as some non-deal costs. There was approximately $22 million of total deal integration costs incurred during the quarter, a significant portion of which was associated with severance paid to employees. So far we've recognised approximately $183 million of the total $250 million of integration costs and deal costs that we expect to incur which is consistent with our previous guidance.

Non-deal costs adjusted out of operating expenses in the quarter were roughly $9 million and mostly consisted of intangible amortisation of the investment management contracts and contingent consideration. Adjusted operating expenses in the third quarter were $286 million compared to the second quarter amount of $283 million resulting in a 1% increase quarter over quarter. Third quarter employee compensation which includes fixed and variable staff costs was up 1% and LTI in the third quarter was flat compared to the second quarter.

Looking forward we're maintaining the previous guidance of a total adjusted comp to revenue ratio in the mid-40s for the fourth quarter compared to the third quarter's ratio of 46.1%. Non-comp operating expense saw a slight increase quarter over quarter consistent with what we've previously communicated. In looking at the parts, investment administration expenses increased primarily due to an increase in transaction volumes and also AUM that drives this cost line. Lower marketing expense was mostly driven by a seasonal slowdown that we typically see in the summer months.

G&A was up slightly as the firm is returning to a more business as usual spend post the merger which is consistent with what we expected and guided to in the second quarter. Lastly I wanted to highlight that embedded in these quarterly results are approximately $17 million of cost synergies that are coming through the P&L primarily coming out of the compensation line. With that I'll turn it over to Andrew to provide an update on the integration efforts as well as an overview of the deal we've announced today with BNP.

Andrew Formica: Thank you Roger. As I reflect on the quarter and considering it has been just a year since we announced the merger three key themes resonate with me. First fantastic investment performance, next exceptional client support since we announced the merger and finally the progress to date we have made on integration which is well ahead of our expectations. All of these strengthen my conviction for the merit of the merger.

In regard to the first two Dick has already spoken about investment performance and net flows and so now I wanted to turn and address for a few minutes and give you an update on the integration. More specifically the BNP strategic partnership that we announced today as well as cost synergies and revenue ,synergies update.

If we turn now to Slide 11 I want to give you an update on the integration and cost synergies. As Dick mentioned this morning we announced that we have expanded our strategic long-term partnership with BNP Paribas whereby BNP will take over responsibility for the majority of our US back and middle office fund administration, fund accounting and custody functions.

We have a long standing relationship with BNP Paribas outside of the US and we believe this outsourced model will provide a consistent global platform to support the global growth of our business. Clients will benefit from BNP's expertise in back and middle office services as well as from lower administration fees and expenses. Janus Henderson shareholders will also benefit from lower ongoing operating costs and from a net consideration of $36 million which BNP will pay at closing in the first quarter of 2018.

Following the closing of the transaction, which we expect in the first quarter of 2018 Janus Henderson employees who are currently providing these functions in the US will become employees of BNP and this group will establish BNP's US security servicing center in Denver.

This continuity will ensure seamless transition and consistent high quality service for our clients and we are pleased that this transition supports the continuity for our US colleagues.

I just wanted to say thank you to all of the Janus Henderson employees for their work on this transaction. It took an exceptional amount of effort. You all did a great job.

Now looking at an update on cost synergies. It is truly amazing how far we've come in such a short space of time. It's hard to believe that we announced the merger only 13 months ago. We still have a long way to go but many of the operational decisions have been made and now it's about executing on those decisions including of course our plans to middle and back office support.

The enhanced partnership with BNP coupled with the ongoing work across the firm has enabled us to increase our target for cost synergies that we expect to realise over the next three years. And thus today we are taking the per annum estimate up from $110 million to at least $125 million. Again, this result wouldn't be possible without the hard work of all our employees and I want to emphasise that we are very pleased with the pace of integration.

Regarding where we stand on realised cost synergies as at the end of September so far we've executed efforts to realise approximately $72 million of annualised savings the majority of which are tied to compensation.

We remain well on track and believe we'll achieve $90 million by the end of year one and at least $125 million by the end of year three.

If we now move to revenue synergies on Slide 12, the revenue synergies continue to develop and as we’ve said previously these efforts will materialise over multiple years.

That said, we are very pleased with the exceptional client response since we closed the merger and we are very encouraged with the progress we’ve seen to date.

In the third quarter, the Dai-ichi Life funded an investment into the European Secured Loan strategy completing the investment of $500 million they committed to at the time we announced the transaction. So Dai-ichi continues to be a great partner for Janus Henderson and we’re excited about the future prospects with them.

Turning to the US since we closed the deal and completed the merger of our US mutual funds there have been marked improvements in client flows into legacy Henderson funds as a result of the strength of the intermediary distribution footprint we now have in the US.

As evidence of this improvement the top selling Janus Henderson US Mutual Fund in the third quarter was our Global Equity Income Fund which is a legacy Henderson fund and this fund brought in roughly $280 million of net inflows in the quarter, which is significantly higher than the recent flows to the fund.

The third area of revenue synergy I wanted to highlight was the growing momentum and increased conversations we are having with clients outside the US. As an example of this during the third quarter, an Australian client, who prior to the merger was invested in both Janus and Kapstream strategies put money into our Tactical Income Fund, a legacy Henderson strategy. These types of opportunities are in the works with clients all over the globe and the success really underlines the strength of our global distribution team, which was the key pillar of the strategic rationale for this transaction.

So in closing let me sum up on the quarter. First, our results are underpinned by very strong long-term investment performance across capabilities a testament to the strength of our investment team to Janus Henderson and the fact that the merger has not been a distraction for them. This strong long-term investment performance will provide a solid foundation for future growth of our firm.

Second, we saw positive net flows across a breadth of strategies during the quarter including early signs of revenue strategies, which is very encouraging. These flows can be attributed to the strong investment performance and our exceptional global distribution team. Client response to the merger has been better than we could have anticipated and we're excited about the opportunities that lie ahead.

Finally, our integration efforts are proceeding ahead of expectations. We are pleased to be increasing our cost synergy target to at least $125 million underlined by the enhancement to our strategic partnership with BNP and the ongoing tireless efforts of our teams across the global.

With that, we'll open up to questions. And I'll hand you back to the Operator.

Operator: Thank you. Ladies and gentlemen, at this time we will conduct the 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 your question, please press star 1 on your phone now and you'll 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.

We'll pause for a moment to allow everyone an opportunity to signal for questions. And your first question comes from Andrei Stadnik with Morgan Stanley. Please go ahead.

Andrei Stadnik: Good afternoon. Can you hear me okay?

Dick Weil: Yes, just fine.

Andrei Stadnik: Fantastic. Look, first question if I could ask, look on the flows could you give a colour in terms of what additional flows you saw in the quarter from the cross-sell into the respected new markets that the merger has opened up for you?

Dick Weil: This is Dick. I don't have that number isolated from all our other flows. We tried to highlight an example in Andrew's comments in Australia and the Global Equity Income Fund that was the leading US Mutual Fund sold in our US Mutual Fund complex as examples and highlights.

But I don't have the fully broken out flows according to those categories. We also mentioned of course the $500 million investment from Dai-ichi Life.

Andrei Stadnik: Roger that. And my second question, look, just on the comp ratio it does feel a little bit high in terms of, you know, it's gone up from 43% to 46% roughly quarter-on-quarter despite, you know, $17 million of synergies, you know, coming through largely in comp and also the benefit of pretty strong, you know, market returns and at net inflows that have, you know, boosted the revenue line.

So was there anything unusual in this quarter in the comp ratio here and should it, you know, should it sit down a little bit from here?

Roger Thompson: Hi Andrei. It's Roger. The – you know we indicated the comp ratio would be in the mid-40s so we're around there. There is a tiny bit of accounting noise in there. But I think to key bit you've got to think about is that the profit is up 20% year-on-year. And that obviously brings increased comp with it.

But yes, broadly we talked about a comp ratio in the mid-40s. That's where we are and I guess and also if you compare it year-to-year the comp ratio is down year-on-year showing that some of that benefit coming through from the synergy saves.

Andrei Stadnik: Thank you.

Operator: Thank you. Your next question comes from Nigel Pittaway with Citi. Please go ahead.

Nigel Pittaway: Hi guys. I was wondering whether you could give a bit more clarity just on what happened on the Equity flows. Obviously if you strip out that one-off, there was a relatively sizeable outflow so can you give us a bit more colour on what happened there and whether or not that's now sort of turned around with a sort of better outlook on the flow in Equities?

Dick Weil: Yes sort of a hard question. I mean obviously we have a lot of moving parts in different marketplaces. The $1.8 billion mandate was in our EMEA group. Part of the US business is our direct business and our self-directed channel. And that has had tended to be a bit negative over recent periods. That's pretty consistently negative.

So the question on the US regional basis is can we do well enough in intermediary to offset some of those losses in flows in the self-directed channel.

And that's been, you know, that's been a struggle recently. We have seen, you know, looking at it by client type we saw inflows in the Institutional and in Retail, which we thought was very significant. In terms of product areas, you know, global equity income is obviously a strong product area for us. Our enterprise, which is mid cap growth has been terrific, small cap value is gathering assets. It's a fairly broad cross section of asset classes and products that have contributed to the result.

You know I hope some of that was helpful. I don't have…

Dick Weil: Go ahead Roger.

Roger Thompson: Nigel I guess that the – you know we've had some outflows in European Equity and when you look at investment in equities, investment performance as Dick talked about earlier overall performance is very strong. Equity performance is strong. But I guess the softer area is European Equity performance and we have seen some outflows there. I guess nothing to write home about but, you know, to give the full picture. Dick's given the positives. I guess obviously I'll give the negatives.

Dick Weil: Thanks for the question.

Nigel Pittaway: Okay thanks for that. Thanks for that. And then just maybe just as a quick follow up just the $36 million from BNP. How will that actually be booked? Will that just appear as revenue in ordinary revenue and no real cost attached or will it be a one-off

Roger Thompson: Yes, we'll book that as a one-off and treat it as a - treat it, you know, below the line so we won't include it in our adjusted revenues. But it'll be a one-off that we'll book at the end of the first quarter or we expect to be in the first quarter.

Nigel Pittaway: Okay great. Thanks very much.

Operator: Thank you. Your next question comes from the line of Ken Worthington with JPMorgan. Please go ahead.

Ken Worthington: Hi. Good morning. First, on the Paribas relationship how will those cost savings going to come in? If the relationship closes in March, are you getting sort of immediate benefit or does the cost saving come over time?

And then are you turning fixed costs into variable costs with this relationship? Basically to what extent is Janus Henderson get the benefit as you scale your business and grow your AUM?

Roger Thompson: Yes. Hi Ken. It's Roger. I mean we need to think about this in three pieces. So I'll just talked about the $36 million one-off amount that we'll receive on closing. The other two pieces are there's probably about mid-single digits benefit on an annual basis to our Janus Henderson costs, which will flow through from when that business transfers over. So I guess that will – yes, in theory that will start at the beginning of the second quarter as long as that's when we close the deal.

So you'll get three quarters of that coming through in 2018. I think the other thing is, you know, most importantly is the reduction in fees for our clients and fund shareholders, which is the reduction there is probably 2 to 3 times that level. And again that will come through once those businesses transfer so clients will start to see that benefit again from when the transaction closes.

In terms of moving from fixed to variable, yes, to some extent. The transaction structured similarly to how the existing BNP relationship was outside of the US. So it, you know, it has drivers based on transactions, AUM, etc. So there is a variable element to it on the upside and the downside but certainly not 100% linked to AUM.

Ken Worthington: Okay thank you. And then I believe Henderson changed its view on the cost of research with regard to MiFID will be absorbing those costs onto its P&L. Can you estimate the incremental cost we should see from MiFID and the sort of change in approach there? I assume these costs turn on Jan 1.

Andrew Formica: Ken. Hi. It's Andrew here. The – look, the first thing I'd tell you is when you reverse our decision, I think as we – as the market has evolved and we've looked at the – really the client demand and the landscape in Europe it's clear that it's the – it's become the sort of normal operating practice or will become for the 1st of January. And you're right for the 1st of January that for European clients or MiFID related business they're taking that expense hard.

In terms of quantifying the cost of – you know it's not really something you could do at this stage. It's fair to say that the price of research as several on telephone will be able to attest is changing quite dramatically at the moment.

And also as part of the budgeting process and the price discovery and the, you know, sort of the usage of research and, you know, being more tailored in that research. So even if we were to look at historical costs, they are significantly higher than what we would anticipate and expect the going forward rate would be both because of the price coming down as well as the utilisation coming down.

I think 2008 - it will come in 2018. And 2018 will be like a year of discovery I guess for the whole industry in terms of how this model operates and where it's going to and throughout that year we'll probably be in a better position. But as we sit here today we don't see it as that significant an impact. But to be able to quantify it wouldn't be fair. And I don't think there's a number we could put on that. You know I think that – so that's probably the best way to leave it for now.

But as we work through 2018 we'll probably be in a better picture, because it is quite a moving feast and it does just relate to our European or MiFID related business.

Ken Worthington: Great. Thank you very much.

Operator: Our next question comes from the line of Kieren Chidgey with UBS. Please go ahead.

Kieren Chidgey: Hi, guys. I just have two questions, one on cost, one on performance fees. And then just following on from the Mifid II cost discussion. Andrew, I mean, don't you have to have a ceiling for what that cost is at the start of the year? Isn't that part of the requirement?

Andrew Formica: Well, you've got to - if you're charging your clients, you have to sit there and have a budget and disclose to them. If you're taking it on yourself, you don't because that's sort of the… You know, obviously we're deep in discussions with the likes of UBS and others around this. But as a - once you're sitting there absorbing it, the main transparency is if you are charging your clients, what that charge is. Once you take that on, you don't need to sit there and disclose that to them.

Dick Weil: Yes, and this is Dick.

Kieren Chidgey: I just meant from a client point of view.

Dick Weil: We're not trying to be vague. It's just the volume of research that we're purchasing is under negotiation. The price of that is under negotiation. And there's even some potential for movement around which clients are included in that treatment. As a consequence, you know, we have a range of hypotheses around, you know, depending on how you move those variables, what the outcome could be. But we literally can't give you a high quality estimate at this point because there's too many moving parts. It's a work in progress.

Kieren Chidgey: Okay. The bottom line, it's not expected to be material.

Roger Thompson: I don't want to make out it's not a - it's a sizable amount. But from an earnings perspective, I guess you're right, it's not material, no.

Kieren Chidgey: Okay. And just very quickly on costs, the additional cost synergies you've talked about 125, is there an additional one-off implementation cost? Previously you talked about 185. Does that number go up?

Roger Thompson: No, we're still hoping to operate within that umbrella.

Kieren Chidgey: All right. And second question. Just on performance fees that new disclosure, slide 28 is quite helpful. Obviously, there's a different level of performance fee recognition AUM by quarter but also a different mix. And I see in fourth quarter quite a lot of the annual stuff is segregated mandates and private accounts which I guess can be quite varied. But is there any commentary you can give us to how that proportion of the performance fee AUM has been tracking?

Roger Thompson: I think only in line with overall performance, Kieren, is, you know, performance is good. But obviously, you know, performance fees are on a wide variety of accounts with different targets, etc. So, you know, I'm pleased you find that the slide on 28 useful as I said in the remarks earlier - the opportunity set in the third quarter is lower and, you know, on quarterly reporting, we will have volatility in performance fees. Q3 as you can see has a significant lower opportunity set.

Q4, I mean - yes, you could - I guess the only way you can really do it is look back at history and you'll see that Q4 has been a good quarter in the past. Performance fees - you know, performance fees is good on an aggregate level. So I guess directionally more than the third quarter but the magnitude of that will obviously depend on individual accounts.

It really is - I guess if nothing else, I'm consistent on this. It really is very difficult to forecast. So I think history is the best guide plus an overall view on performance. And then obviously on the public accounts, you can look at how we're performing on the large funds with performance fees on them.

The last thing I'd say is on the fulcrum fees, you'll see Q3 is pretty much the same as Q2. Q4 we drop off a relatively good quarter. So we have to add another good quarter in Q4 to replace the quarter that's dropping off. Otherwise, you know, the fulcrum fees will get slightly worse before they get better.

Kieren Chidgey: All right. Thank you.

Operator: Thank you. Your next question comes from Michael Carrier with Bank of America. Please go ahead.

Michael Carrier: Thanks, guys. Just on the expenses and on the outlook, you know, Roger, if we think about the 125, you know, in synergies over the next couple of years, I just wanted to try to get a sense,, you know, what your view is on sort of the core expense growth and we can exclude Mifid but just kind of the core operations just so we kind of get an understanding of what like the net, you know, growth we should be expecting and where, you know, maybe the margin can settle, you know, over the next couple years.

Roger Thompson: I guess what, you know - I think a big piece is - so, you know, non-comp, we indicated that the second half would probably be about 5% higher than the first half. And, you know, you'd expect to see some growth in that with inflation and just the size of the business growing in '18 ex-synergies but definitely very moderate. I guess the investments in the business again, you know, relatively moderate in 2018 and variable comp, you know, as we talked about.

You know, at a high level, you know, comp is effectively driven by profits so variable comp will move up or down in line with profit growth. But I guess if you - you know, on the fixed cost elements, you know, certainly in the single figure category.

Michael Carrier: And then on in capital management, just any update, you know, given you guys have a strong balance sheet, you know, you have the dividend. It looked like the share count ticked down. I don't know if that was, you know, something that was more unusual. But just any update on priorities as you, you know, go over the next, you know, say 12 months, you know, on buybacks versus dividends versus investing in the business.

Roger Thompson: Yes, I think - you know, the first thing is, you know, 32 cents is $65 million of dividend that we're paying out on a quarterly basis. As we said before, the short-term cash needs of the business is relatively high in terms of the integration spend. Obviously, a significant chunk of that has been spent but there is probably about 60 million of that 185 we talked about earlier, 60 to 70 million of that, which is still outstanding.

And then we've got the convertibles. You'll notice that the - about 33 million of the convertibles on a nominal value we have redeemed in cash in the third quarter. The remainder of that, you know, will come in. Those mature in the second quarter of - sorry, in July of next year.

So I guess from a cash needs perspective, think about the convertibles, the next chunk of integration spend and then, you know, the first half of the year is always more expensive from a cash point of view than the second half of the year because of bonus payments.

And then after that, then yes, we're responsible guardians of capital, as we've always said. If we have true excess cash and excess capital and not a better use of it, then that's when the board will consider how to - returning it. Then there's a question of how. But, you know, we're certainly, you know, not talking about that today.

Michael Carrier: Okay, thanks a lot.

Operator: Thank you. Your next question comes from Patrick Davitt with Autonomous Research. Please go ahead.

Patrick Davitt: Hey, good morning. Thank you. There's still a lot of chatter about the FCA getting more aggressive in their capital reviews and requiring companies to hold more capital. And we had the kind of surprise with Hargreaves this summer when they were told they needed more capital. Could you kind of walk us through your view of the risk that that could happen with you and why or why not?

Roger Thompson: Yes, hi Patrick. Roger again. I mean, the answer is it's already happened. Our capital requirement in our U.K. group, which is the dominant part of the capital that we have to hold in the combined group, increased following the FCA's review, which for us was completed last year. So we've already seen that. Our capital requirement went up quite significantly. So that's already baked into these figures. You know, the - so I don't think we're at risk of more, at least at the moment.

And the other thing is, one of the advantages of the merger is, you know, the U.K. has a very different capital environment than other regulators. So there are things that we will look at in terms of - you know, from a capital perspective what do we do within our U.K. regulatory group. The whole of Henderson was within that group. You know, there are opportunities from a restructuring perspective to do things from a capital perspective a little bit more efficiently but that will take time.

Michael Carrier: All right. That's helpful, thanks. And on the flow outlook, do you have any visibility on large Institutional wins or losses or even more qualitatively how the pipeline has kind of ebbed and flowed into October and November?

Andrew Formica: Yes, Patrick, as you're - I'm sure you're aware, you know, Institutional flows can be lumpy. You know, we're focused on the third quarter numbers here. I don't think looking at any outlook or that's helpful. So there's nothing worth saying at this stage.

Michael Carrier: Thank you.

Operator: Next up we have Chris Harris with Wells Fargo. Please go ahead.

Chris Harris: Thanks. On the flows, you know, the net number was good but the gross sales were down quarter on quarter and actually at the lowest level in about a year. So it sounds like there's some good things happening with the merger. So any thoughts on why the gross sales weren't a little bit better than they were?

Andrew Formica: I think the list for both growth sales and growth redemptions, there's a - you've got a seasonality effect in there with the largest part of our business being in the Northern Hemisphere and the summer period. So that should be expected both on the sales. And certainly gross sales line, and on the redemption line you'd see a combination of movement through the phase of the merger and through the completion of the merger and looking forward as well as obviously some seasonality effect as well.

Chris Harris: Okay, got it. Thank you.

Operator: Your next question comes from Alex Blostein with Goldman Sachs. Please go ahead.

Ryan Bailey: Hi, this is Ryan Bailey filling in for Alex this morning. I had a two part question on the tax rate, so as we think about the mix of the business going forward and, you know, growth in different parts and then you have some of the synergies, how do you think about the tax rate going into 2018? And that's ex-tax reform. And then I guess the second part of the question, if we do think tax reform goes through at kind of the 20% corporate tax rate, do you have a sense of where that might shake out for the overall company? And I know it's early days on the latter question.

Roger Thompson: Yes, hi Ryan. I guess the tax rate and we guided to – we guided to high 20s, the tax rate in the third quarter is higher than the second quarter. That's because of the mix of earnings, so a lot of those performance fees that we booked in Q2 and didn't repeat in Q3 are European in nature, predominantly booked in the UK, which as you know is a 19.25% tax rate or average for the year will be. So that's why Q3 is higher than Q2. I would consider you to guide towards, you know, high 20s as our tax rate going forward without change.

Should tax rates lower, then does that have a benefit? US tax rates come lower, does that have a benefit, you know, obviously it does. US tax rate is 37% and a bit, UK tax rate is now 19%, the merge of those is what gets you to 28%, so if the 37% comes down our high 20s number comes down.

Ryan Bailey: Got it. Thank you.

Operator: Your next question comes from Robert Lee with KBW.

Robert Lee: Great, thank you. Thanks for taking my questions this morning. Can you maybe talk a little bit, you know, forward looking in the sense of where you see, you know, some strategic, you know, investment initiatives, I mean, when you look across the industry, I mean, obviously some competitors have been trying to build up an ETF business, others have invested in, you know, even some technology businesses and tried to roll those out. And obviously Janus did have the ETP business they acquired, you know, a couple years ago. So could you maybe update us on kind of new business initiatives that you may be thinking about over the next couple years and kind of where you kind of see the firm headed and maybe different or new directions?

Dick Weil: Yes, thanks. It's a good question. But maybe not the best time for that good question in the sense that just as we sit right now the obligations of business as usual plus integration plus dealing with regulatory change frankly have a whole lot of our resources pretty fully allocated. And the amount of spare resource to pursue the sorts of initiatives that you're describing is pretty limited right at this moment.

We're impatient people. We want to get to that point where we're moving forward again on some of the ideas along the lines of the technology or products that you've described. We obviously in legacy Henderson and legacy Janus we've both been reasonably aggressive about expanding our capabilities in the past. And we want to get back to the place where we can make those moves effectively. But for the next year or 18 months, you know, to be realistic we have – we got a pretty full agenda in dealing with regulatory change and business as usual and integration. And, you know, you shouldn't look to us to be at our most aggressive peak during that period of time.

Robert Lee: Fair enough.

Andrew Formica: Just to add on some of the – just to give you some statistics in some of those areas, you know, our ETF business year to date has seen about $160 million of net inflows so that business is actually doing quite well. And the ETP business is actually up to about $3.4 billion in assets. So it's – while a small part of our business, it is an important part and doing – and actually seeing some good growth at the moment.

Robert Lee: Great. And this maybe the follow up really probably a little bit more of a modeling question for Roger, but with BNP, you know, kind of optically I would assume that we're going to see comp once this comes in maybe come down but G&A go up as you kind of move from, you know, the people off your books and you start paying BNP.

Andrew Formica: Yes, exactly. So, yes, there's about – just over 100 people that will move from being – well they won't move at all, they'll be in the same desks doing the same jobs with the same systems, which is very important for our clients. But about – just over 100 people will move off our payroll and onto BNP's payroll and we'll pay for that through, as you say, through non-comp expenses but at a slightly – yes, with a – as I talked about earlier with a slight benefit to us in the mid-single digits.

Robert Lee: Okay great. Thanks for taking my questions.

Operator: Thank you. And our final question comes from the line of Brian Bedell with Deutsche Bank. Please go ahead.

Brian Bedell: Great thanks. Good morning, folks. Maybe just staying on the BNP topic, I guess maybe just your selection process of BNP versus the other US custodians which have been pretty prominent in the space. Was it mostly about the price and BNP trying to establish a better US foothold or, you know, I guess what other types of criteria? And then how much are you – is the basis point reduction in the funds, can you talk about that.

Andrew Formica: Brian, yes in terms of the criteria there is no – there is no single criteria. The BNP proposal and offer really addresses so many of the core constituent requirements, so firstly as we are sort of looking to integrate and create a global platform, given they were the significant provider of back and middle office for the outside of the US business, to integrate that and create a global platform around that is obviously very important for us as a business as we look forward.

In addition, the fact that they were taking on our staff, as Roger said, retaining the people, the processes, the systems underlying that, you know, that means from our client perspective we see no change in the processes and the way it works. There are significant – as Roger mentioned, savings for the underlying fund shareholders. In terms of basis points, I don't know because the savings we get actually are across the globe, they're not just for the US mutual funds. But obviously there is – is a savings which we think is very important as well as we get additional savings.

And as importantly, BNP didn't have particularly the back office operations in the US prior to this, and so their desire to move in and do this and continue to invest was one of the critical aspects of what we're seeing. So retaining our people, retaining our processes and systems and a partner who we know very well who will make sure we knit our back office together globally as well as significant investment plans in this space was, you know, really the key drivers, supported by the fact that there were significant savings on behalf of our clients and some modest savings on behalf of our shareholders, all of that came together to what was a very compelling proposition from them.

Brian Bedell: Okay, that's great color. And then just lastly, maybe Dick, if you can talk about the – I guess the view from the Institutional consultants and gatekeepers obviously typically in a merger there's a waiting period or a wait and see period, you know, your performance has been improving across the franchise. So are you seeing any sort of lightening up of that might indicate, you know, gross sales, you know, would improve from the Institutional and I guess, you know, plan sponsor angle.

Dick Weil: Well thanks for that. You know, I think we see great opportunities in the Institutional market and anecdotally I see some signs that we've gotten some very positive results on individual products from various Institutional consultants recently. But I can't give you a broad cross sectional answer to your question. I think quite properly, the Institutional consultant community, you know, they take a pause when you go through a transaction like this and they become watchful waiters and we haven't, you know, we haven't jumped the line on that. We're still in that period with those folks, but there are positive signs developing.

The most important thing is obviously performance, performance, performance, the most important thing is that our investors are delivering and then that our client relationship folks are maintaining and growing those relationships. And we're seeing good results on both those fronts so we're optimistic even though we can't predict the specific timeline of acceleration of sales in Institutional space.

Brian Bedell: Okay. Great. Thanks very much.

Operator: And we have no further questions in the queue. I'd like to turn the conference back over to Mr Dick Weil for any additional or closing remarks.

Dick Weil: Thank you, Operator. Thank you, everybody for joining us today. I hope we've been clear, it's easy to get overly focused I think on the quarter to quarter changes and comparisons and I guess that's a risk of quarterly results. But from our perspective in management, thematically the most important things in this story are exceptional investment performance providing a foundation for future growth. It's really – we're very grateful to clients for their support of our transaction, for the continuing trust and relationships, well done to the client facing teams on maintaining and growing those.

And finally, the very important integration efforts are proceeding well and ahead of plan. And thanks especially to BNP for their partnership in this new effort in the United States. So with that, only five months in, we think we're off to a great start as our new company, we're very pleased with what we’ve been able to accomplish as a direct result of all the hard work of our many employees and, you know, thank you to them. We’ll talk to you next quarter.

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