Henderson
GROUP PLC

First Quarter 2016 Trading Statement
Wednesday 27 April 2016

Andrew Formica, Chief Executive

Thank you all for joining us on the call today. With me today I have Phil Wagstaff, the Head of Distribution, and Roger Thompson who you all know, our CFO. I'll start by talking about the market backdrop and investment performance, and then Phil will pick up and talk about client activity and flows, and then I'll get Roger to give you a brief update on the regulatory projects that we've talked to you about recently.

So firstly, if I start with a few words on markets. The first quarter was a quarter of two halves. For the first six weeks of 2016 there was a whole series of concerns that weighed on markets, whether it was China, oil, negative interest rates for example. Then, and without much really clearly identifiable changes to the fundamentals, the oil price bottomed out, reassurance came from China and ECB and the Fed, drove an end quarter rally that we saw affecting particularly materials, commodities and emerging market areas. The fact that the MSCI World Index ended up back where it started masks significant volatility that was evident over the course of that quarter.

Looking specifically at Henderson, over the three year period which is the key measure for our clients, investment performance remained strong with 77% of our assets under management outperforming, and consistent track records across all of our investment capabilities. Over one year, the same factors that made our investment performance exceptional in the first quarter for 2015, being overweight developed markets, being underweight emerging market, energy and commodities, did cause performance to fall back in the first quarter of 2016. So our latest one year number which shows 52% of assets under management outperforming, reflects the double effect of an exceptional quarter falling out from last year and being replaced by a challenging one. As you know, we're much more focused on generating long-term value for our clients than on quarterly shifts, and our approach to engaging consistently with clients mean they are well aware of our positioning.

Just to show how extreme markets have been, if you just look at the stark reversal in Large Cap European equities in the first quarter. If we look at the Eurostoxx 50, it was up 7% in the 12 months through to December 2015. But just rolling forward a shift of 3 months, it's down 16% for the 12 months ending March 2016. That's a 23% shift in just 3 months. This makes it tough for our largest European funds but the long-term records remain excellent. Looking at Equities in general, Henderson Horizon Euroland, Henderson European Growth OEIC, and Henderson Geneva Small Cap, are examples of funds that have continued to deliver strong performance.

In Fixed Income we saw strong performance in our Henderson Fixed Interest Monthly Income, and Multi Asset Credit fund, and the Henderson Australian Fixed Income fund, as well as our high yield strategies; but investment grade corporate credit and rates have been more challenged. In alternatives, a standout performer continues to be UK Absolute Return, and I'm sure Phil will touch on that in his bit as well. So overall on investment performance, the first quarter was tougher, but our managers remain comfortable with their positioning.

With that, I'd like to hand over to Phil Wagstaff to talk about the resilience of our flows.

Phil Wagstaff, Global Head of Distribution

Thank you, Andrew. Hello everyone. Well, our overall view of flows in the first quarter is that they held up pretty well given the volatile conditions that Andrew has just outlined. If I look at our Retail ranges first, the UK was slightly positive, clients responded to volatile markets by reducing their risk appetite and taking profit in areas such as property. The diversity of our UK offering served us well in these conditions with the strongest net inflows into Henderson UK Absolute Return, Henderson Fixed Interest Monthly Income, and Henderson Strategic Bond, where clients are buying into flexible asset allocation and a diversified risk portfolio.

On the SICAV range this was marginally negative, but flows ended the quarter stronger than they started. As you would expect given a market reversal in European equities that Andrew just outlined, we saw some outflows from our European equity range. On the positive side, UK Absolute Return and Total Return Bond continued to sell well. We continue to make good progress in our relationships with the global banks, and are seeing more of our products added to their platforms which should continue to improve the persistency of our SICAV range.

US Mutuals were our strongest performing Retail segment in Q1. Although we're starting to see our US clients become more cautious about European assets in the run up to the Brexit vote, our flows are becoming more diverse with less concentration on European focus, and good client interest in the newer products that Jim O'Brien showcased in the February meeting.

Moving on to Institutional. I'm tending to look beyond the lumpy outflows in the first quarter to a pipeline which is building nicely across a range of strategies. We did tell you in our full year presentation that we had approximately £500m of notified redemptions, and we've also tidied up some sub-optimal fund ranges where there has been limited client demand, and that was another source of outflow this quarter.

Looking forward on Institutional, activity levels have been high and increasingly global so far this quarter. There's a healthy pipeline for Geneva Small Cap in the US, continued demand for credit, and significant levels of interest for both Retail and Institutional in what Glen Finegan has to offer on emerging market equity. As always with the Institutional business outcomes can be binary, but I'm comfortable that we're taking all the right steps to grow the Institutional client base.

With that, I'll hand over to Roger.

Roger Thompson, Chief Financial Officer

Thanks Phil, and good morning everyone. As you know, we don't discuss financials in our quarterly statements, but I thought you might appreciate an update on the various regulatory projects on our agenda at the moment.

First, MiFID II. You will remember that we were waiting for the publication of the Delegated Acts to see what we would be required to do on dealing commission unbundling. The Delegated Acts were published earlier this month, and on our analysis it looks as if we'll be able to continue to use Commission Share Agreements to pay for research as long as the research element is separately identifiable. We can now set to work on adapting our systems and processes to meet the more clearly defined requirements and move into the implementation phase of the project.

The other major piece of regulatory work this quarter has been the FCA Asset Management Review. We made our initial submissions in March, and have since participated in the round tables organised by the FCA. Key areas of focus for the study are how asset managers compete to deliver value for clients, fee transparency across segments, and how focused we are on controlling costs along the value chain. For now things are quiet as the FCA considers the submissions it's received, and we are expecting to hear back from the FCA in late summer before they publish their recommendations early next year.

I hope that gives you a flavour of what's been on our minds this first quarter, and when I hand back to the operator we'll be happy to take any of your questions.

Q&A session

Question 1

Hubert Lam, Merrill Lynch

Just a few questions. Firstly on April flows, I'm just wondering how is that trending versus March? You seem to say that each month is improved month-on-month, so I'm just wondering if April is continuing on March trends or actually improved on March?

Secondly, on the Institutional pipeline, you speak quite a bit on this. Can you quantify how much the Institutional pipeline is, and is this mainly increased conversations or actual mandate wins but yet to fund?

And thirdly, is just on flows to wrap it up. Do you think 6-8% of net new money growth is still feasible for this year?

Andrew Formica

I'll get Phil to pick up some of these questions, but I'm not going to be drawn into April flows, still being in April and just published our Q1 numbers. So, as we don't give financials on this we don't give an update as well on how things are in such a short period. Phil, anything on the pipeline?

Phil Wagstaff

On the pipeline, Hubert, like I said in my comments there, the pipeline's building quite nicely. I differentiate between pipeline as won and unfunded, which I guess is what you're driving at, and just something in the ether, and I think you can read it that I'm viewing that most of this stuff is about half way between the two. It's looking promising but it's definitely not won and unfunded at this stage. So I'm hopeful, but like I said the outcome could be binary.

Your other question about 6-8% net new money. Well look, I think over the last three years we've well exceeded that, so on our five year plan we're ahead of expectations, our own and probably yours. Markets remain volatile, and I think that's the challenging situation for flows. We've got the Brexit vote on 23 June and I think markets and clients are keeping some of their powder dry until then. So it's hard to see how the year will end up right now because we're only in April, but I can't say whether we're going to do 6-8%, a lot depends on the Institutional pipeline and how the Brexit vote goes and how volatile markets are from here.

Question 2

Jonathan Richards, KBW

A couple of questions from me if I may. Firstly, on your FX exposure for the US Dollar and Euro and Australian Dollar that you highlight in the quarter, can you give us an idea of the sensitivity between those three currencies, are you mostly US Dollar exposed, and what do you think the breakdown of the absolute movement is in the quarter, in an FX versus markets point-of-view?

And then secondly, can you give us an idea of how you guys saw your UK flows proceed through Q1? The IMA data looks to seem like there was industry outflows in January and February followed by inflows in March. Did you guys have a similar experience?

Andrew Formica

Thanks Jonathan. I'll get Roger to pick the FX and Phil to pick up the UK Retail question.

Roger Thompson

On FX, the moves were biggest – it's probably reverse – in Australian Dollar then Euro then US Dollar. In terms of our weighting, we're probably slightly biggest in Dollars followed by Euros, but obviously we've got a much more significant Australian Dollar business following the purchases of the Perennial businesses last year. As we've said before, you've got to be a bit careful between the currency of the fund, the currency of the share class and how it's hedged, but we obviously are increasing and growing in non-Sterling revenues with the strength of the businesses we've got outside of the UK.

Phil Wagstaff

On the Q1 OEIC flows, our experience has been slightly different from the industry in that we've been fairly flat, we were flat for the quarter and we've been fairly flat every month, just a little bit either side. Unlike the SICAVs which were negative in the very volatile period and then improved in March, OEICs were just sort of flat each month.

Andrew Formica

I suspect, Jonathan, that position will remain through to the Brexit discussion and Referendum. It's much, much quieter in the UK Retail space if clients are very concerned about particularly the large swings you're seeing in currency and the impact of what a vote could go to.

Question 3

Anil Sharma, Morgan Stanley

Just a couple of questions please. Firstly, on this FCA Review do you think this timetable for late summer is actually realistic, because some of the feedback I've been getting from your peers seems to be that they expect that to slip. So I'm just wondering what your view is?

Secondly, on the cost guidance you gave earlier this year, the budgets are set in Q4 and that's when you decided the cost guidance. Given what's happened and now we're almost in May, has there been any sort of revision in the budgets or the cost guidance?

And then thirdly, I was wondering if you could give us an update on what's the net new money we're seeing from the seed funds that are getting those three year track records? There's obviously some potentially quite exciting products in there, so I'm just wondering if you could give us an update?

Andrew Formica

Thanks, Anil. In terms of the FCA I think you're right, the FCA is still saying the late summer. The expectation – I was just talking to the IA yesterday on this – we think September is really the earliest it will come. I personally think it may even be a bit delayed before that. As you know, Andrew Bailey takes over from the FCA and he doesn't join until the end of July, and I suspect whilst it won't change hugely what they publish, I think he'll want to have a review of that. He does sit on the Board already, but I think he'll want to have a review of that. So I think you should be targeting late September with risk of slippage in that, would be my suggestion. But that's just my view rather than anything official from the FCA.

You asked about any update on cost guidance given budgets were set back then. We don't give any financial updates at the quarterly statements so I'm not going to change that. I think it's just fair to take the comments that Roger gave back in February, which were we continue to look at our cost base and judge it against what the markets are and the conditions we're experiencing, and any update for that will happen at the half year.

And your third question was on the new seed.

Phil spoke quite encouragingly about what we're seeing in the emerging market side with Glen Finegan. I think that's very pleasing given what we're seeing. Glen's only been here 15 months now so it's extremely encouraging.

The high yield numbers have just hit their three-year track record. High yield's not the highest in demand area, though the team has done exceptionally strong results, any improvement in demand in that area we will definitely benefit from.

And whilst it's only small, I think Phil mentioned in his area, that what we're seeing in the US, where Jim talked about the funds that were outside the top three or four that we'd seen flows, we are continuing to see encouraging flows in there. In the scale of the overall flows of our business they're still relatively small but overall they're very encouraging and moving the right way.

I would say that one of the positives that aren't so evident for you looking at what we've put out is that the diversity of the business is coming through. The dependency in just one area is not the case; we're actually seeing those new strategies really offer quite interesting opportunities for us. And I suspect as we move through this year, and particularly into 2017, that will be a key strength of the Group.

<u>Question 4</u>

Daniel Garrod, Barclays

A couple of questions from me. You obviously gave some thoughts around Brexit when you last updated the market in February, I wondered if there'd been any change in those thoughts. At that time you were sort of majoring on the UCITs registration of the European funds causing relatively insulation in terms of impact. Today you do mention that it could cause a bit of a slowdown in flow momentum from UK Retail, I guess. And you said there's evidence of fears of slower momentum into the UK fund range as well. So, I wondered if you could make any comments about that impact.

Secondly, the comment around the Institutional pipeline being healthy outside of the signalled mandate losses, are there any other ones outside of that £500m that you signalled for Q1? Any other tidying up of smaller mandates planned?

Andrew Formica

Phil will pick up the Institutional point in a second.

On Brexit obviously the time of the results the Referendum actually wasn't announced. But what we tried to do is give a sense of what the impact is. And I think you've got to look at the Referendum vote really at two levels: Firstly what does it mean for our clients and the investment behaviour in the overall industry? And then what impact might it have on Henderson?

I think in the short-term you are definitely seeing a slowdown in activity. People are sitting on their hands and waiting to see. It's probably more pronounced or most pronounced in the property market. If you talk to anyone in the property fields you'll hear that pretty much no transactions are occurring, whether it's in office or other spaces. And that's just a sense of so much investment comes from foreign investment why would they do that until they really have a sense of it? It's only a few months; they'll wait. So there's definitely a pause or a hiatus, which we'd always expected would be over the period of the debate. So as soon as it was called it's not a surprise that clients would behave that way.

In terms of where the view of Brexit is it's obviously something we spend a lot of time on for our client portfolios; we engage with clients at Board level. Probably the most appropriate way to look at it is the betting markets and where they are sensing this is. And you've seen that actually improve on the position of the UK remaining in Europe. It's probably gone from around a 35% probability of going out to just above 20% now. That's really been mostly influenced by two things: obviously the Treasury announcement of the impact it would have to the economy and in particular to every individual. The economic arguments are very strong for the UK to remain in, and that's starting to sway the undecided vote, which is quite high. And then obviously Obama's input over the weekend, whether people feel it was appropriate or not that he did comment he has commented, and that's put those people who were undecided put a leaning more towards remaining in, strengthening the cause or the impact it will have. So I think there's that element.

The final bit about what it means to Henderson is very much as was said before, we do have a SICAV range. If the UK was to exit we could easily operate the SICAV range with a sub-advised mandate to Henderson in London to run the money. It will mean, and I think Roger had pointed it out, we would probably have to beef up some of the operational controls in Luxembourg. So, for example, you would probably need some compliance and some investment risk for oversight of the portfolio managers. You wouldn't need to move any of your portfolio managers, but you'd just need to have probably a little bit more substance.

What does that mean in numbers? Probably moving from three people, four people in Luxembourg at the moment to a dozen maybe. It's not a huge shift but you would probably have to look to do that. So, I don't see it as a huge issue.

The only thing I would say if the UK does decide, the public vote to leave the EU it is at least a two-year negotiation of what that exit would mean, and then there would be five to even a decade or more years before it's fully implemented. Our operational challenges would be the smallest component of what an EU leaving would do: What does it mean for the economy? What does it mean for client behaviour and flows? There would be a whole range of things we'd have to consider.

Are we considering any of that? At the moment no; it's way too early for us to be putting in any contingency plans. And I don't even think you could put in any contingency plans. We'll just have to wait and see what happens on 23rd June, and obviously once we know that at our half year we'll be in a better position to give a more definitive impact on our business or whether it's just business as usual at that point.

Phil Wagstaff

Dan, following up on your second point about the restructuring of a couple of the desks that I talked about in my statement. We undertook a bit of a restructure of our Japanese equity offering, and that resulted in some outflow, which we've reported this morning.

I'd say two things about other tidying up moving forward. There's always some tidying up to be done on an ongoing basis, and I think that's just good housekeeping, but we have nothing of that scale planned currently for the future.

<u>Question 5</u>

Nigel Pittaway, Citigroup

Three quick questions if I could please. First of all, just in terms of the US flows, does that reflect any progress in the RIA channel from an early perspective or is that still coming from the more traditional broker dealer networks?

Secondly, just on the Institutional, is it your sense that the industry is currently still in outflow for Institutional? And if so what do you think would turn that around?

Thirdly, is there anything you can say, maybe even in a qualitative sense, about the implications for performance fees of the short-term downturn in investment performance?

Phil Wagstaff

We've been investing quite heavily in developing our RIA channel over the last few years, trying to diversify our business away from just the wirehouses, and that's going really well for us. We added some more internal wholesalers to our external wholesaler team to give us more access across wider geographies, and that is going well. So we're pleased with the diversification there.

Your second question was about Institutional flows in general.

Andrew Formica

At industry level.

Andrew Formica

I would say on that point the big issue with Institutional has been the sovereign wealth funds driven by the low oil price in particular. I think that trend is still continuing. I think the Institutional market still is growing far slower than the Retail market; though the Retail market slowed dramatically in the first quarter, particularly in the first six weeks, as volatility and concerns come. But I don't think the Institutional challenges that we spoke about a month or two ago, there's certainly no easing of those at the present.

Roger Thompson

On performance fees, Nigel, it is still too early to say. We do earn them through the year. There is a lump in June. If you remember, that's when our SICAVs and particularly our long-only SICAVs have their annual years, and there is an absolute high watermark on those long-only funds at June. So that's a sort of binary event.

I guess countering that we talked a little bit about UK Absolute Return being a very strong performer and growing very significantly and that obviously earns performance fees the other way.

So still too early to say. We'll update you at the half year.

<u>Question 6</u>

Arnaud Giblat, Exane

Three quick questions. Firstly, in emerging markets basically what we've seen over the last six weeks, a pick-up in flows, which are mostly directed towards ETFs. I'm wondering if this trend towards inflows and then eventually those flows turning towards active managers are you well positioned to benefit from that. Glen Finegan has a 15-month track record; are investors willing to look at his previous track record, is that an issue? Could you reap benefits significantly if emerging market flows come back and stay?

Secondly on the US, you mentioned during your prepared remarks that the US was seeing a reduction in appetite for buying European assets. Clearly taking away the Brexit issue I'm wondering if that is changing fundamentally in the US, or what are you seeing there?

Thirdly, staying on the US, given the increasing breadth of your distribution and of your product set and the reduced valuations in US asset managers I'm wondering whether you're seeing perhaps any acquisition opportunities there.

Phil Wagstaff

I think we are seeing some more activity around emerging markets. We have a number of clients who play the mean reversion game, and have seen that there's underperformed developed markets over the last few years. I think the timing has been good, with us bringing Glen on 15 months ago. Yes, it is a little bit early for some clients, but we're getting a lot of interest in listening to what he's got to say. We've had some small Retail flows already, and we're getting quite a few Institutional enquiries along those lines.

We are helped by the fact that some of our competitors are closed, and that we are an active manager looking at good quality growth companies rather than just being an ETF to buy the market. So I'm very encouraged by the way that is going.

On the US risk appetite generally for European equities, my view would be that that is Brexit noise affecting that. Clearly we are based in Europe, but if you're based on the other side of the world and you're looking in it is hard not to lump the whole European issue into one bucket which is, 'it's noise and I'm not sure about it so I'm just going to avoid it for the moment'. And I think that's what's playing on anybody's mind. I don't see it as a fundamental shift away from European equities.

I'll let Andrew answer the final question.

Andrew Formica

On your final question about what are we seeing in terms of US asset managers and the like, it is fair to say that US asset managers have been de-rated over the last 18 months and are trading at much lower multiples than they have in the historical past. Also I think one of the things for us that we certainly are getting from discussions with the US, and this is actually more from our US shareholders rather than competitors, is that the resilience of Henderson's flows on a global basis, and equally within the US itself, is in stark contrast to a lot of the major players over there. So we're increasingly seen as a beacon of doing things well in the US.

From our own point of view what we've got in the US is already a great footprint. Phil spoke about the pipeline that we're looking to fill in Geneva in the small-cap side, the high yield team, investment grade credit team has done a great job there in Philadelphia. That's given us quite a good platform looking forward of what we can do over the next few years. We don't feel we're short or in gaps over there. So if we were to do anything it would have to be opportunistic. We do continue to keep an eye out for things but our focus is really about the organic growth of our business. And only if we see an opportunity because of where someone else gets themselves into either trouble or reassessing their own strategic direction then we're very happy to engage on that.

At the moment there's nothing we're actively looking at, but of course we keep a watching brief. And as I've said to you in the past, the US is an attractive market for us, we've done well and we'd like to be bigger there. And scale does help you in that market.

The other benefit of the US, which is quite distinctly different to other parts of the world, is once you have US clients they tend to like you as a house, and the ability to have more products with that client is greater than in any other market. So there are benefits of being in the US that they are very loyal to their asset management firm, not just to the product or the fund manager.

Question 8

Peter Lenardos, RBC

Just a quick follow up on that M&A question. I thought you'd previously communicated that 2016 was going to be a year of integration. Can you just confirm that acquisitions are largely off the table for the remainder of the year?

Andrew Formica

I don't think I said anything then different, Peter, to what I said two or three months ago, which is the focus on the organic growth, obviously dealing with a lot of the regulatory challenges, are our priorities. We'll keep alert for opportunities that present themselves and dislocation and volatility in markets will create opportunities or throw up some challenges to other business models which we'll be alert to. But it's not our priority or our focus.

If you feel I said anything different to what I said six or eight weeks ago, apologies. It's the same as what I said then.

Concluding comments: Andrew Formica

Thank you all for your time this morning. Obviously if there are any follow up questions you have Miriam and the team are available throughout the day. Otherwise we look forward to meeting you in a couple of months as we see several of you on our travels, or updating you at the half year results. Thanks a lot.