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Henderson Group plc

Q3 Interim Results

Thursday 30th October 2014

Andrew Formica, Chief Executive

Thank you and thank you all for joining us today. I know some of the investors, particularly those of you down in Australia, have asked us recently for more regular contact, so I'm hoping that today's call will help in that guise, because, as you know, normally after the IMSs we haven't really followed up with a Q&A session. So we'd be interested in, after this call, any feedback to Miriam and the team here in the IR if there's something you'd like it to do on an ongoing basis and we can factor that in.

Joining me today is Phil Wagstaff, the Global Head of Distribution. Unfortunately Roger Thompson, our CFO, is off for half-term. Well, not for him, I'm sure it's probably quite fortunate that he's off, but I've got Richard McNamara, who is the Managing Director of Finance here with me, as well as obviously Miriam from IR.

I want to keep this fairly informal, so I'm going to kick off and give you a bit of colour in some of the Q3 IMS data we put out today, and then really throw it over to any questions you have that I'm sure Phil and Richard and myself will be happy to answer.

So what are the key points in the IMS from my perspective? We've continued to make good headway, despite what is clearly a tougher market backdrop. Looking at £1.4 billion of net inflows, which when you look on an annualised net new money growth, is 13% for these last nine months. This is a really strong start to the five-year plan that we outlined earlier this year.

Our comparative strength against weaker industry flows also means that we're continuing to take market share. And to give you a bit of an example for that, if we take the UK, for example, the largest platform over here is Cofunds, and Henderson is top of their net sales league year to the end of September. And we have three funds in their top five: our Henderson MultiManager Income and Growth, the Henderson UK Property, and the Henderson Cautious Managed, all feature in the top five best-selling funds on their platform.

In terms of European equities, we're basically flat compared to an industry that actually saw net outflows in the third quarter.

And if we're talking about Retail here, if we look into the UK product line, which did perform best, we had £814 million of net inflow. This compares to just over £900 million in the second quarter and £650 million in the first quarter.

And the top selling funds in this range included the Henderson UK Property Fund, the Henderson Euro Select Opportunity Fund, Henderson Cautious Managed, Henderson Strategic Bond, and Henderson MultiManager Income and Growth. You can see very clearly a diverse range of styles, some of which are clearly suited to demand from more defensive and income-focused strategies.

Whilst mentioning UK property there, you will hopefully have seen the announcement we made last week about acquiring the Old Mutual property fund and merging into the Henderson's UK Property Fund. This is a very straightforward deal, which allowed just under £440 million of assets under management to the Henderson UK Property Fund. As you know, the fund is sub-advised to T H Real Estate, so bear in mind when we share the economics with them, as we do with the existing business we do. The transaction will take the assets in this fund up to £2.7 billion, and this will make it the third largest fund in the sector, where we see a large and diversified portfolio can actually attract larger investments and clients. To us this is a good example of the ability to act opportunistically where we see value for both client and shareholders.

You'll have also seen our announcement on the 15th October about the departure of Richard Pease. Things have been pretty quiet since in terms of flows. From the announcement up until yesterday, we have seen net outflows of around £20 million from Richard's Special Situations Fund itself, the one which will transfer with Richard when he leaves.

The funds which Richard formally co-managed, which now are run by Simon Rowe, have seen outflows of less than £10 million. And we've also seen inflows into other funds in our European range, which have offset these outflows as some clients have looked at our other managers, namely John Bennett. So net-net, we're roughly flat.

I would stress that it's early days, but this is a good result, particularly given sentiment towards European equities in general took a hit during this period of time.

Also remember clients have plenty of time to make up their minds, because Richard doesn't leave until the second quarter of next year, and we're actively engaged with clients to make sure they have all the information they need and access they need in this period.

So if we move on to look to at the SICAV range, we continue to see good growth with flows of £260 million, but this was down from the £590 million in the second quarter and the exceptional £1.5 billion in the first quarter.

With our SICAV investors we saw a clear rotation out of the growth orientated styles, like European Equity, into more defensive products, including our Alternative range.

US Mutuals saw a slowdown in the quarter. Inflows of £56 million compared with £317 million in the second quarter, and over £600 million in the first quarter. We've seen a marked reduction in demand for European and International equities.

We are broadening our product range and have three new products: the Henderson International Select Equity Fund, the Henderson US Growth Opportunities Fund, and the Henderson International Long/Short Fund, all slated to launch before the end of this year.

I'll also highlight the two other funds. The Henderson Global Equity Income and the Henderson Strategic Income Fund have recently received five star ratings from Morning Star, which is a very strong barometer of new business growth.

Staying with the US business for a moment, one of the most significant events for us this quarter was completing our acquisition of Geneva Capital Management. I was in Chicago with Phil a couple of weeks ago and joined some productive working sessions with the US team.

Our Institutional business stayed positive and on track and in line with what we said it would do for this year. And we saw a couple of good mandate wins, which reflect the increasingly global nature of this business. So we saw global equities get additional wins in the US, and our new global commodity business getting some mandate wins in Australia.

So how do we see the outlook? Well, clearly it is a tough market backdrop. And we've had a protracted liquidity driven rally with central banks pulling consistently in the same direction, and that now may be past its peak. We're looking at a choppier outlook potential with more volatility, lower returns, and pockets of frailty in the global economy.

Our working assumption is that the market will remain tough, with investors tending to take risk off the table. This means that we are anticipating another tough quarter for flows in the 4th quarter.

Given our cautious outlook, you won't be surprised to hear that we're also maintaining cost discipline in the current budget round. That said, we'll continue to evaluate opportunities, create value for clients and shareholders, and the property transaction, as mentioned earlier, with Old Mutual is a good example of this.

Overall, I am very happy with the progress we're making to diversify, globalise and grow our business. The third quarter demonstrates that we continue to make progress, and even in tough market conditions Henderson continues to take market share.

That's probably a good wrap-up of the key points from the IMS statement and now I'm happy to hand over to the operator and we'll take any questions you might have.

<u>Q&A session</u>

<u>Question 1</u>

Hubert Lam, Morgan Stanley

Good morning, a couple of questions from me.

Firstly, on the margins. Regarding that you expect to see increased flow into your cash and lower risk products, and how does this affect your margin fee guidance of flat margins for the year? That's the first question.

The second question is on the Geneva assets. Originally, I think you said that the assets are going to be about £4 billion, but it looks like you're getting about £3.3 billion. How much of this decline is due to markets and outflows? Thanks.

Andrew Formica

I guess Richard will answer the question on margins and Phil will pick up the point on Geneva.

Richard McNamara

Yes, regarding margins, we'll obviously update the investors on our full-year margins and our full-year results in February. Clearly we haven't mentioned here and we remain silent on that, so I think you should just assume that our guidance previously given of remaining around 58 basis points for the year should remain intact.

Phil Wagstaff

Hubert, on the question of the assets from Geneva, there were two figures originally given. One was the assets that Geneva had. Obviously one of the things that we required to do this deal was client consents. We were pretty pleased with the client consents we had, but one or two clients actually declined to consent, and as ever, when there is a transaction some clients will decide to leave us. So a small number of clients decided to redeem just in the run up to the transaction, which of course meant that we didn't pay for those assets and that's the way that we structured the deal.

Andrew Formica

And I would stress on that point, Hubert, that obviously the initial upfront payment was lower, but additionally, to get to the earn-out over the next five years, they have to get back to the original level of revenues. So when you actually look at the economics, the risk borne by Henderson through this period actually doesn't change the IRR at all because of the way the structure worked.

Question 2

Daniel Garrod, Barclays

A couple of questions from me.

I just wanted to pick up, in your outlook statement in the release you mentioned 'vigilant on cost', and you mentioned it again in your statements there. I wonder if the likes of what we've seen, market movements were extreme in September/October, and is there any change in your guidance or expectations on the components of the full-year costs? You obviously had a flatish operating margin at the half-year stage and were sort of guiding to that level for the full-year, and any thoughts around what might happen in 2015?

The second is just as a technical question. The market movements, £510 million was a bit higher than I was anticipating. Can you give any colour on how much you got a boost from the FX side of things? Thank you.

Andrew Formica

Daniel, just on the cost outlook and the mention there. Look, I think there are a couple of points. We sort of said previously, over the last couple of years there's been a heavy investment program in diversifying and broadening the business, and the peak of that has been in 2014. And certainly as we've gone through the budget round for next year, there's nowhere near that level of investment required, so you will see us move to a more normalised level, consistent with the messages we've been giving.

In terms of what that means for both 2014 and 2015, I'd say in 2014 no change to where we would have guided, despite what's happening in markets we're broadly comfortable with that. Clearly if things were to deteriorate significantly from here, maybe there would be a change, but we're so far through the year and it's not going to make a big impact in 2014.

For 2015, again, as we've highlighted, we expect to see an improvement in the operating margin of the business because of the growth we've seen and the investment cycle coming through, as just discussed. And sitting here today, even at current market levels, I anticipate that's still the case. Obviously I'd reserve judgement if things were to deteriorate dramatically from here, but we just don't feel that's going to happen and our current market levels, the messages that we've been having around 2015 remain intact and we're comfortable with that.

In terms of how much the market movement is impacted by FX?

Phil Wagstaff

It's always difficult, Daniel, to split that out given all the constructs of the underlying portfolios, but clearly there was a benefit coming through given the strengthening of the pound, but I haven't got a specific split on that FX market movement between FX and market.

Andrew Formica

And remember, Daniel, I think our investment performance itself has held up pretty well through the period and there's elements of outperformance relative to market indices as well in there.

Daniel Garrod

Your global equities in the core capabilities for market movement FX there was pretty strong, any thoughts is that just outperformance there?

Andrew Formica

Yes, in particular our Technology Funds did very, very well and they're a reasonably large good book of business for us. So it's mainly through some of the performance of those funds I think did well.

<u>Question 3</u>

Simon Fitzgerald, Evans and Partners

I just wanted to quickly ask a little bit more about the staff turnover in terms of particularly about Richard Pease leaving. I just wanted to know if there were any bodies that put the funds under review. I think I'd read that Fitch had, and were there any others that have put the funds under review?

Phil Wagstaff

Simon, I'll pick that up. It's Phil here.

What I'd say is it is normal practice when a fund manager announces that they're leaving a firm for nearly all clients to put a fund under review.

Actually what's happened here in the way that we've structured this deal, with Richard still being in the building probably for another six months, clients have got a lot of time to make their decisions, so this is a slightly unusual situation. So a number of clients are currently reviewing what they do with the holdings they have with Richard. We've had a number of people put the funds on hold, but we haven't had any definitive people saying they're putting it under review in the sense that we're sellers of it at this stage. So it's a bit unusual and actually it's been very nicely handled from a client perspective. So nothing at this stage that I would say is untoward.

Andrew Formica

And just one other point on that. One of the other things is a lot of the fund houses we talk to won't really buy rate two managers in the firm. And one of the issues we've had is that John Bennett has done very, very well, but because they've had Richard on the panel, that's been hard for them to add a second Henderson fund and justify it in the European space. And this has actually clarified the situation, people have said actually in some ways this is good news, because if we like Richard we can retain Richard because he'll be at new house, but actually we can put John Bennett on now.

So when you think about being under review, some of those reviews are actually about reviewing Henderson, to remain Henderson rather than Richard on panel as well.

Simon Fitzgerald

Can I also ask in terms of what steps you have in place to replace or fill up underneath, given that Simon Rowe is now going to be running the fund as well?

Phil Wagstaff

We've got a first class European equity franchise, Simon, with a large number of managers and a large number of strategists, so we're actually not planning to replace Richard at all. I would say we had an embarrassment of riches in European equity managers, and we still do even with Richard moving on, so we're as strong as we need to be in that area, so no plans.

Simon Fitzgerald

Can I also in terms of the emerging markets offering, I think I read somewhere that you're going to be looking to revamp that. What's that going to entail?

Andrew Formica

As you know and most people know, that when I've talked about emerging markets emerging market equities is probably the last piece of area we'd like to address in terms of reviewing what we're doing and investing in that space. We remain on track. I said I'd hope to be able to demonstrate some progress on that by the end of year. We remain on track for that is my belief, or my expectation at this point, but I can't add anything further at this stage.

Simon Fitzgerald

A final question just on Geneva. I'm sorry if you mentioned this before, but I just wanted to know about the performance currently how that's going?

Andrew Formica

We didn't pick up on the performance. Actually Q3 was a positive performance, quite strongly positive for the Small-Cap Strategy and also positive for the Mid-Cap Strategy, and that's not surprising given a more defensive style within the defensive bias within the growth style that they have. So the market conditions that we've seen over the last three or four months have actually been encouraging. They've stuck to their style despite under-performance in previous quarters, and are seeing some of the benefit of that and clients appreciating the fact that actually what's coming through is consistent with the messaging in that side. So performance there in the very short-term since we announced the deal, has been positive.

Simon Fitzgerald

And sorry, just one more. In terms of the European equities offering, you'd mentioned things have gone pretty quiet. Just in terms of the start of the first quarter, is there any sort of colour you can give us in terms of the flow, what that's like?

Phil Wagstaff

I think one of things that we do know is that given the strength of our performance, both in the Long only European equities and in the Long/Short European equities, that we are taking a market share. As I said, it's a big franchise for us. There will always be investors who want to be investing in European equities through the cycle, and actually we've seen a number of clients wanting to come in and buy into the weakness that we've seen. So we're pretty pleased with how we started Q4.

<u>Question 4</u>

Ross Curran, CBA

Sorry if you've covered this before, but I'm just wondering on Richard Pease's fund, he had the option to take the fund with him. Are there any other fund managers that may have options to take money with them as well that we need to know about?

Andrew Formica

Ross, I can answer that very clearly, the answer is no. The situation with Richard was unique. It was put in place because Richard actually wouldn't come over as part of the New Star deal, and one of the reasons was he had the option to start up at that point. The arrangement was put in place to at least give us the best possible chance we could have in UK Retail. And at the time Richard was probably the spearhead along with one or two others in Henderson, of the rebuild of Henderson in the UK retail marketplace. That was six years ago. Rolling forward six years now, Richard himself is no longer so critical to us in the success of UK Retail, and when you hear us talk about the strength we're seeing in UK Retail, none of those successes in the top five or six funds we're selling, are not Richard's funds over the last sort of 12 months and he is so less relevant to us. But what he had was, he was absolutely critical in that first year or two to just give stability, and the arrangement I think has worked well for all parties in that sense.

The economics for Richard were very strong when you also couple with the sales and other costs associated with, which meant the profitability of that fund in particular was significantly lower than the profitability of any other retail fund we have. Notwithstanding that, for 2014, 2015 and for a large part of 2016, there will be no impact at all in the profitability for Henderson because of the way the deal is structured, because he has ongoing commitments to us for at least 12 months post his transfer, which won't be until Q2 next year. And even then, because of the relative economics I mentioned earlier, for the rest of 2016 it would be a relatively modest impact at all. But your very first question, there is no-one else who has anything like that in Henderson, and they will not be having anything like that.

Question 5

Bruce Hamilton, Morgan Stanley

A number of my questions have been asked. Understandably your outlook commentary is somewhat cautious, but given the volatility, shall we read that as meaning October's been sort of slightly negative on flows?

Then secondly, in terms of the slowdown in the US Mutual fund side was something you'd been flagging previously. It sounds as though that's to do really with investor appetite rather than with any soft close. I wonder if you could just remind me when the European product gets soft closed or if that's already happened.

Phil Wagstaff

Just on the soft close, and this is connected to the same thing, I think one of the softenings we've seen in US Mutual fund flows over the last couple of months, is that they have reduced appetite for European equities, and as a result of that we have decided not to soft close the US Mutual fund European Focus. We were getting the brakes on it quite a long time before it reached capacity anyway, and actually we were being prudent, so in discussion with the Trustees of the fund we've decided no longer to soft close that. We have lots of capacity anyway so that shouldn't be an issue.

The other thing I'd say is just on your first point. US investors allocating to European equities is a non-core holding and is a tactical allocation, and as a result they may have softened their appetite for that.

Andrew Formica

Sorry, on your first question were you asking for the Group? In which case, for the Group every month this year has been a net positive inflow, and October you should be expecting absolutely the same. We are not experiencing outflows at a Group level across the range. There'll be certain funds and certain categories that may see outflows, but as a Group October will be another positive month, as has every other month this year. We don't anticipate that changing for November and December.

Question 6

Portia Patel, RBC

Just a question on performance. I notice the one year number versus benchmark improved over the quarter, but the three year number's come down slightly. I was just wondering if you're concerned that the three year number should continue to moderate in the context of your comments around the market environment being challenging?

Andrew Formica

It's something we do obviously spend time on, and three year numbers in particular are more important for buyers of fund ranges than just the one year numbers. The deterioration is fairly modest when you look at it in aggregate. Am I worried? Not at all. I think anything in the sort of mid or high 70s or higher, is acceptable for a group as diverse and broad as Henderson. So the fact that we're still in the mid-80s means we've got a number of very strongly performing funds on a consistency over a period. I think what's been really pleasing for us is that performance has been through market conditions that have rotated quite dramatically over the last sort of three to four years, and our performance has been solid through that. So I think that's helpful. At the moment when you're looking at the deterioration in the numbers there, I'd say it's so modest it's random noise, and I wouldn't have any concerns at this stage.

Question 7

Gurjit Kambo, Credit Suisse

Just in terms of the new fund launches in the US, how have you selected those areas? Is that where you see client demand in the US? Also, are these replicated funds that you have elsewhere, or are they new funds which you've seeded in the last quarters?

Phil Wagstaff

The answer to that question, Gurjit, is we always start with client demand. We look at what clients are saying to us that they're looking for, and then we combine that with where we've got strengths. For example, the International Select Equity Fund is a mutual fund version of our Global Equity franchise run under Matt Beesley. The US Growth Opportunities Fund is going to be our first new fund launch under the Geneva banner directly for our clients and will be a new mutual fund for them. And International long/short is something that we run in a Cayman vehicle for a number of clients already, and also in segregated format, and we're planning to launch a 40 Act version of that fund in the US. So Global Equity long/short if you like trading off some of the strengths we have in our AlphaGen range in our hedge fund business. So they're all sort of natural progression from where we are, apart from Geneva which is going to be a fund launch for that team.

Question 8

Mark Hancock, Precept

Given the significant change we've seen in markets since you reported the August results, you gave us a bit of comfort at that time that you'd expect better operating margins over the next couple of years and a better comp ratio for shareholders. Can you reiterate that you're still confident over the next couple of years you see those metrics improving?

Andrew Formica

I think I mentioned that cost earlier under I think was it Daniel's comments earlier. Sitting here today I'm still comfortable with that. Clearly if a deterioration in markets is quite pronounced, if we were to see a 10-20% further fall from here, that will make it more difficult. But looking at what the business is and the projections we see in terms of anticipation of continued growth in terms of new business growth, continued market share gains we see consistent with the business, and the ability that we're through the majority of the investment cycle. Therefore those investments aren't to be repeated at the same level going forward, that those guidance that I gave for 2015/2016 is an anticipation of what we'd like to hope the business was capable of, still remain intact. Having gone through the recent budget rounds over here, that's consistent with where we see the business capable of doing.

Mark Hancock

Secondly, in respect of the disappointing Henderson share price of late, should we perversely feel more optimistic that bonus provisions might be lower than you'd otherwise expect at year end?

Andrew Formica

Well you might have noticed that the share account that you all kept going on about has come down a bit, so that's a reflection of some of the share price related plans. In terms of bonus expectations, it will reflect the results of the Group. The share price itself reflects a lot of the bonus schemes in terms of the TSR elements to things like LTIP for example. But in terms of the metrics for individual bonuses, they're based on the investment performance, the new business growth opportunity of the business, the financial disciplines of the Group, and those remain very, very strong. Notwithstanding the fact that share prices have come off this year, I think in terms of the business delivering to its targets and what it said it was trying to do at the beginning of the year, I think we're on track for that. So I wouldn't temper bonus expectation just because a share price comes down, but a number of the metrics that you've seen, and you saw it in the share count, if you look at from June through to the September estimate, has come down reflecting a move in the share price.

Mark Hancock

Thirdly on costs, you said 'vigilant'. Given the more difficult conditions you've discussed, have you kind of stepped up your cost efforts in any way to try and underwrite the profit outlook at little bit better?

Andrew Formica

It's probably fair to say that with the current outlook that's recognised across the Group, and all expenditure is considered in light of that, as it would have to. I mentioned I think when I was in Australia that some of the expenditure with elevated levels such as marketing and travel, because the client demand was so strong, we're getting a benefit from that. If we think clients aren't demanding the same level of face-to-face meetings then we'll pare back on that. That's just an example where you will tactically adjust to the conditions both in the market and your business demand, and the industry demand has softened, that's clear, and for that there is some flexibility in the short-term. But this is all about managing a business profitably and successfully through cycles, this is not about pulling back or cutting back in the business. We continue to see huge advantages for us to continue to invest, demonstrated by the growth in the market share that we're getting in a number of our key markets.

Mark Hancock

If I could push my time limits a little bit. If we just look at the last three quarter data points on the net inflows, the naïve analysts might assume it's a negative line. Can you just give us a bit more comfort on the outlook for the trend there?

Phil Wagstaff

What I would say is clearly the numbers of net flows are reducing quarter by quarter over the last three quarters, but from a very, very high number in Q1 and Q2. What I would say is when I started this year if I'd had Q3 flows for each of the quarters in Q1 and Q2 I'd have been delighted. We exceeded all expectations there. So I'm not sure that we should be judged on the reducing trend.

What I would say is, reiterate the point Andrew made earlier, we've had positive flows every month this year, we've got a nicely diversified business and we've got some very strong performance. I would anticipate that we'll see net flows in Q4 notwithstanding any extraneous market volatility that we're not aware of now. I think we're well set but let's not kid ourselves, Q1 in particular was a very, very high number.

Andrew Formica

And those naïve analysts didn't extrapolate Q3 last year, Q4 last year, Q1 this year and kept it going up. So I'm sure they won't extrapolate Q1, Q2, Q3 and anticipate it going all the way to negative for the future years if we look forward.

I don't think you're all that naïve, are you Mark?

Mark Hancock

Thanks Andrew; thanks for your help. A good overall IMS.

<u>Question 9</u>

Scott Olsen

Most of my questions have been asked also. Andrew, I was just wondering if you could perhaps give some updated comments on how you see the unbundling debate unfolding in the next few months and where you see it ending up.

Andrew Formica

Thank you for that I was wondering how long we'd get through the call before I got asked that. And we've got a lot further. So whoever had the bet on 32 minutes they did very well!

When the half-year results came out in August it was pretty fresh, it had come out, the consultation was very rushed. Since then we've had a lot more dialogue with the regulators, with other interested parties and industry bodies. As most of you know, I sit on the IMA Board and Roger Thompson sits on the ICI Global Board as well both are very influential and heavily engaged in this thing.

When I came down in August I probably mentioned there was definitely a head of steam up for it, particularly driven by the UK regulator. And whilst there was significant pushback through the consultation period it was going to be tough necessarily to see changes. I probably put the odds at about a 50/50 chance of it going through. I do get the sense that ESMA, who are the European regulators who are drafting this thing, are definitely considering a softening. It is yet to be seen whether that will be acceptable and adopted. The UK regulator in particular continues to believe this is a high priority for them though you've actually had some public statements from the German and the French regulators actually going against this, which is unusual for them to be public on some of these things as well. What I understand is that ESMA are considering adaptations or changes to their current language, which we are not privy to seeing what that is and what it means. But I would put the implementation of a full ban on unbundling at probably now more like 20%, rather than it would have been 50% three months ago.

That said, I would say the direction of travel continues to be greater disclosure of research budgets. Henderson in that regard comes across very, very well. We've already been running it in a way that is consistent with best practice that the UK regulator would want to see. So if they were to adopt a more stringent disclosure requirement and budgetary approach to the use of dealing commission it would have zero impact on how Henderson currently runs it. It's only the full unbundling and the hard costs that would have any impact.

I know some analysts out there have put in estimates as well. We're not going to comment on those until we get the results of the consultation. I'm not sure all of those estimates accurately reflect the model both for Henderson and the industry. But there is no point in going into any more detail until we know more.

Also, I did say that the consultation was due out in November or December we're hearing now it's more likely to come out in first or second week in January. So that is the anticipation in terms of when we will hear from ESMA.

Question 10

Nigel Pittaway, Citigroup

You were going to get the unbundling question from me as well but I got beaten. On the tax rates, obviously you're flagging there 10% or just a little bit more in the second half. Does that have any implications through into 2015 or are we sticking with the prior chat about FY15 tax rate?

Richard McNamara

The points which we've made in this IMS they are one-off in their nature so you shouldn't assume there's any impact in terms of what we've guided in the past in respect of future years.

Nigel Pittaway

And then obviously you've flagged that there is a pretty significant reduction in the diluted cap. Is that all due to share price moves or is there anything else going on within that? Because it is, as you say, a pretty significant drop.

Richard McNamara

Yes, it is due to the share price. Obviously the share price will drive whether a particular option is going to be in the money or out of the money, and that is what has driven that fall in the diluted nature of those outstanding share awards.

Nigel Pittaway

So there is no cancellation of awards or anything in that? It's all share price driven?

Richard McNamara

No significant leavers, no significant adjustment other than share awards would not be vesting as at September's share price. Hence the diluted nature has been reduced.

Nigel Pittaway

Maybe a comment on the institutional business where obviously you were hoping that you were going to have a three-year track record pretty soon. Is that still on track?

Phil Wagstaff

We've got a number of products that are, if you like, in the process of being built some of which we talked about when I was in Australia earlier in the year. Global Equity, for example, two years in, Global High Yield getting on for one year in, US High Yield getting on for two years in. The performance in some of those funds is fairly strong.

One of the things that we've done as part of the Geneva acquisition is that we've invested quite a bit in our US distribution capability to try and take advantage of this. We've also made some changes in our Asian distribution for institutional as well to try and take advantage of it. So as the products come on stream and the performance is strong we need to be having more conversations with investors, so we've been beefing that up a little bit.

As you know we have one or two clients in the UK, large life companies whose books are in run off to have a little bit of a headwind which is why we gave guidance earlier in the year that we expected institutional to be stable rather than increasing from here. But as those products come on board and get to their three-year numbers I expect to get some good traction with those.

<u>Question 11</u>

David McCann, Numis

Back in summer when you announced the results just in regards to performance fees you mentioned that if in the second half of this year you achieved half of what you had done in the first half that would be a good result. I guess in line with what may have changed in terms of a relative and absolute performance in the last four months I just wondered if there was anything to update in that comment.

Richard McNamara

No update from our previous guidance on that point. Clearly we've still got a few more months of the year to go. We've had a few more months since the half year, which has continued in line with what our expectations were. Obviously if there is a significant market change that could change that for the full year, but at present no change in that guidance.

David McCann

Just maybe to clarify can you remind us how many of your performance fee eligible funds are on relative performance and those that are on absolute?

Andrew Formica

If you have a look at the disclosure we gave in the half-year results, I think page 53 in the results, a slide at the back which actually breaks it down by AUM and by number of funds. It should have all the information you want for both relative and absolute there.

<u>Question 12</u>

David Humphrey

Just back on the unbundling issue, can you give us an understanding as to whether the UK regulator can achieve a far more stringent outcome than ESMA? And what probability would you put on that?

Andrew Formica

David, they can because each regulator can impose on their regulated firms their own regime. They've got to at least follow the European regime but they can go further their interpretation, their knowledge of that. However the UK regulator, notwithstanding the fact that they are very strong on this point, have said categorically they will not do anything other than what they do at Europe. So they will not gold plate this or make it more stringent.

That may be different if they throw it out totally. In which case I think they may get to greater disclosure in that. But they won't unbundle on their own. So I would put a very low, if not zero, probability that the UK goes it alone if Europe doesn't go down this route.

<u>Question 13</u>

Bryan Raymond, Macquarie

Most of my questions have been asked as well. Just a question on performance, particularly in the Multi-Asset portfolio. There's still a bit of volatility there on a one and three-year view the rest are reasonably stable. I just want to get a bit of colour on what have been the drivers there over the last three months.

Andrew Formica

It's just simply the period we're dropping off versus the period we're picking up, so when you go back three years ago, 2011, if you go back and look at our one-year numbers for that space in 2011 they are actually very poor. That was because they had a really tough period there. And what you've done is drop off one negative quarter and picked up a positive quarter. The net effect can be, in those situations, quite dramatic.

Bryan Raymond

The same applies for the one-year numbers you saw some quarter dropping off there as well at the back end, about 20 percentage points?

Miriam McKay, Head of Investor Relations

What we saw in the one-year numbers was that quite a lot of the Multi-Asset funds moved from one side of the 50 percentile rubicon onto the other side. And when you've got big funds doing that that can make quite a shift in the one-year number – and that was the case in Multi-Asset.

<u>Question 14</u>

Simon Fitzgerald, Evans and Partners

At the half you called out that £700m was coming out of the Institutional business in terms of mandates, in run-off or in maturing structured products. I just wanted to know where we were through that stage.

Phil Wagstaff

I would say we are on track with that. We have reasonable visibility on some of this money that we flagged might be in run off. It's been in a fairly steady state there. And as I mentioned a little bit earlier it gives us a tiny headwind to deal with on this side. We are putting on new business in institutional, but it's sort of being negated by some of those headwinds. So we're sort of bang on track with that number that we gave at the half year.

Andrew Formica

Thank you all for your time this morning and those in Australia this evening. Hopefully you found that useful to give a little bit more colour and depth into the IMS that we put out today. As I said at the beginning it's the first time we've done a call associated with it. If it's something you feel is useful please let us know via Miriam and we can make sure we schedule it for future times.

The only thing I would say, whilst the industry and market outlook clearly has deteriorated over the last couple of months, I think Henderson continue to be very well positioned. We're well respected out there, we continue to be seen as a manager that can navigate in these difficult conditions that we're standing; and therefore have continued to take market share and see good growth. I think we feel as comfortable as we can in terms of how we are positioned, both at portfolio level and at a business level in the current market conditions.

Thank you for that, and if there are any follow up questions feel free to come back to Miriam.