Henderson
GROUP PLC

Henderson Global Investors

Wednesday, 19th April 2017

Andrew Formica, Chief Executive

Thank you all for joining us. With me on the call are Roger Thompson, our CFO, and Phil Wagstaff, our Head of Distribution, who will be available to answer your questions after I've just made some brief opening remarks.

Firstly, I'll start to say I'd characterise the first quarter as challenging for us, but one where we saw an improving trend in client sentiment and flows. Our three year investment performance statistics softened slightly with 73% of assets outperforming, but the one year number did improve from 50% to 54%.

In our Retail businesses we saw £1.4bn of outflows, with the majority of this coming from the SICAV range in Continental Europe as clients continued to pull back from European growth assets over the quarter. 85% of this outflow came in January and February, and outflows reduced in March as sentiment towards European assets improved and we have seen this positive trend continue so far in April. In the course of the first quarter, we've seen some evidence of an increase in risk appetite, and a strengthening focus on Europe, both within Europe and across the globe.

With our Institutional clients the first quarter overall was negative, driven by redemptions from one of our Global Equity strategies where we announced in December that the team would depart as part of our pre-merger planning. The strategy in question had about £800m of assets that we felt would be at risk from this decision, and we thought they were already at risk because of poor performance going into that decision. £300m of that £800m left in December, and the remaining £500m left in the first quarter.

The majority of our Global Equity capability, notably our nearly £11bn Global Equity Income franchise, is unaffected by team restructuring. After the merger, Janus Henderson will have a diverse and highly compelling Global Equities offering.

Elsewhere in Institutional we saw good first quarter inflows into Global Credit and European High Yield, and we also saw our first flows from Janus' major shareholder, Dai-ichi, into two of our strategies, European Credit, and also Global Growth. There are also a couple of more big mandates for emerging markets and in our alternatives space, totalling nearly £800m that were expected to fund in the first quarter, but instead funded early in April and are funded at the time of this call. Beyond these, the pipeline still remains strong.

Our Institutional business continues to diversify by geography and investment style, and we're looking forward to building scale and further diversification when our merger with Janus completes.

Within Henderson we've continued to make significant progress this quarter towards our merger with Janus. You'll have had the chance to review the merger update pack that we published in March, so I'll draw out just a couple of recent highlights. We now have clearance from all of our regulators and are on-track to complete the US Mutual Fund approval process. All of our major people decisions are made. We're monitoring unplanned departures very carefully, and given that it's post-bonus now for both Janus and Henderson, resignations are consistent with historical levels; we have not seen any increase from what we've seen in normal cycle.

Systems and operating model decisions are now well advanced and looking forward to move towards the execution stage, and our office moves will be largely complete on day one. Our new brand and all the necessary fund documentation will be in place also on day one. Our product prioritisation is now agreed. And sales training is in progress to make sure that both sides are fully aware of the capabilities and strengths of both organisations as we move to day one. We have internal sales conferences scheduled in London, the US and Singapore, over the course of the next few weeks.

From a financial perspective, you'll note today's confirmation that we'll pay an extraordinary Q1 dividend of 1.85 pence per share to Henderson shareholders on 19 May 2017. This is to maintain pay-out parity between our two sets of shareholders. Dividends going forward will be determined by the new Board of Janus Henderson, but we expect our dividend policy to remain progressive with our pay-out ratio in line with Henderson's historical approach.

The last remaining milestones therefore for the merger are the shareholder votes on 25 April for Janus, and 26 April for us here at Henderson. The Investor Relations team have asked me to remind all the shareholders on the call to check their voting deadlines with their custodians, which may be, in some cases, before the end of this week.

With that, all that remains for me to say is that the team here at Henderson are greatly looking forward to our new partnership with Janus, and are excited at the prospect of talking to you about Janus Henderson at our Q2 results which will be on Tuesday 8 August. With that, I'm happy to hand over to the operator, and Roger, Phil and I are happy to take any questions you might have.

<u>Q&A session</u>

<u>Question 1</u>

Michael Werner, UBS

One question. Last time you met with us you were talking about the European Equity performance and how it had a really tough Q1 ’16. I was just wondering now that that's behind us, on a 12 month basis how has the performance looked within the European Equity franchise over the past 12 months now that the Q1 ’16 date is behind that?

Andrew Formica

I think Michael, you're right, that obviously last year the one year numbers were poor for European equities, and actually the majority of that was actually in the first quarter. With that having dropped off, we've recovered somewhat from where we were, but we still remain in some of our larger strategies sort of at the top end of third quartile. So whilst we've seen an improvement on a one year basis, some of our bigger strategies, particularly in the SICAV range, continue to be the middle to top third quartile rather than moving into second quartile.

Phil Wagstaff

I can add something to that, Mike, if you like, which is that a couple of our larger strategies have a growth bias, and some of the redemptions we saw in January were a result of people making a rotation to more value style. So some of the underperformance in the large strategies also comes from that bias. But I think we're beginning to see the first shoots of clients coming back to growth having played out the value trade.

Michael Werner

Thanks. I guess on the three year performance for the European equity, I assume that's still holding up quite well?

Andrew Formica

Yeah, it's about 75% on a three year basis.

Question 2

Anil Sharma, Morgan Stanley

Apologies, I joined a bit late so sorry if it's already been asked. I just wondered, since we last spoke obviously you've seen BlackRock's announcement about what they're doing with some of their equity funds and moving some of it to be a bit more quant versus fundamental. I just wondered what you guys made of that announcement, and if there's any kind of read across to the ways you guys are thinking about the future Henderson Janus business?

Andrew Formica

Anil, I think each business makes the decisions based on their own both beliefs and outcomes that they're seeking, so I wouldn't comment on what they're doing.

I think in terms of the industry I would just highlight the fact that we are an industry that has always experienced periods of change and that's going to continue there, and some of the developments you're seeing such as Machine Learning and AI and that I'm sure will have direct relevance and read across to our industry in time. I don't think it's there yet, but as I've spoken about in the past it's something that we at Henderson and we at Janus Henderson will continue to monitor and invest in to just sort of understand it. But I think at the moment it's too early to say it's anything other than it's something you need to have on your radar. A bit like driverless cars, whether it comes in my lifetime or not I don't know.

Anil Sharma

And a final one. In terms of the FCA study I think we were due to get proposals out in the summer; do you think that's realistic given everything that's going on in the UK or would you expect that to get pushed?

Andrew Formica

Look, we haven't had confirmation of this, but typically when you enter a UK election firstly areas like Whitehall, the Treasury go into purdah and the FCA normally puts themselves in a self-imposed purdah as well through the period. So it wouldn't be unusual given we've now had an election called, that all consultations are put on hold until the outcome of the election.

Now, we haven't had anything official from the FCA on that, but that's typically during election periods that they actually put themselves on hold until the result of the election is known.

Question 3

Hubert Lam, Bank of America

Good morning everybody. Just a quick question. I just want to get a sense of what feedback so far you've heard from consultants on the merger. And do you expect any consultants to put you on hold or not put you on their list which would stall the Institutional momentum you've actually been very good at gaining over the last several quarters?

Phil Wagstaff

I'll pick up on that. The reaction from clients has been excellent globally. Everybody understands the rationale for the deal. Their primary consideration is that the teams that are running their money are not affected. And the great thing about the complementary nature of this deal is that most of the teams are not.

We've not been put on hold by any consultants. We've been put on watch by a couple, but as you know that simply means: there's something going on here and you should be aware of it. So we're enjoying the same sorts of relationships with our consultants that we were before.

I think it's probably fair to say that we may not get as many pitches or finals during this period as we would normally. But we're not on hold.

Hubert Lam

Okay, and we shouldn't expect Institutional flows to slowdown towards the completion of the merger and upwards then?

Phil Wagstaff

On the contrary, on the basis that we're probably going better in Institutional now than we have been for a number of years after investing in it quite heavily, and Andrew also mentioned in his opening remarks that we had some significant funding in the first week of April that we expected at the end of March, we've got nice momentum behind the Institutional business right now.

Hubert Lam

That's good to hear, thank you.

Andrew Formica

Thank you all for taking the time today. As you can see, whilst it was a tough quarter, we had seen significant improvement in March and that momentum has carried through so far. The merger does have an impact clearly at the moment, but we see that as sort of moving pretty quickly.

We are being told there's one more question if we can get that through before I wrap up.

Question 4

Nigel Pittaway, Citigroup

Sorry I was a bit slow on the button there, but just a couple of questions maybe. First of all just on how you're feeling about this positive trend on European flows in April, do you think it's sustainable? Because before you were a little bit worried that there were still quite a lot of elections to come, so are you feeling that it's really a permanent turn or is it still just as likely to swing back again?

And then just secondly maybe just a quick comment on MiFID II and how confident you are that you are going to be able to stick to commission sharing arrangements on the back of that rather than being forced to take any costs through the P&L.

Andrew Formica

I'll let Phil pick up your point on Europe. He'll always be far more cautious given his sales targets are linked to it.

Phil Wagstaff

It's a great question, Nigel, and I wish I knew the answer. The good news is there are green shoots.

What I would say is there are two things going on in European equities, which I think I mentioned earlier. The first thing is that there is clearly some uncertainty about the structure of Europe with all the elections coming up this year and that is making international investors nervous, so that is Asian investors and US investors. There's something else going on in Europe which was a rotation to value stocks from growth stocks, and a number of our funds have a growth bias. So we've been impacted doubly by those.

The second of those things I think is beginning to play out and we're seeing some evidence of people coming back to growth.

I think the other thing going in our favour here, and I'm beginning to see it, is there's an extraordinary stretch in valuation terms between US equities now and European equities, which is a message that we're giving to our clients and is being well received. Whether this is the first shoots of spring or one swallow it's hard to say, and only time will tell, but we're feeling okay about where we are right now. We're in a much better place now than we were in early January.

Andrew Formica

And to your second question on MiFID II it's really referring to whether through that we see a need for unbundling research to become a hard cost. In all our announcements and working through with regulations it's not regulation driven that you'd make a hard payment. There have been a number of notable competitors of ours who have come out and said that they will pay hard. That's a decision driven by them at a Board level and a business level; it's not at regulatory level. We certainly don't see that as necessary at the moment. We also don't see the vast majority of our peers doing it. So even though there have been some headlines we don't see any pressure either from clients or consultants or business pressure to do it ourselves. And certainly when you talk to global players, particularly the large American firms, there is no intention to go down this route.

So the first thing I'd say is it's not expected or necessary from a regulatory point of view, and we don't believe that even though you've seen some high-profile things that it's actually become a business imperative decision.

If that changes obviously we'll tell you but that's where we sit today.

Nigel Pittaway

Great, thank you very much.

Andrew Formica

Given there are no more questions, thank you for your time. We'll update you at the EGM and AGM next week and then look forward to speaking to many of you after that in our trips down later in the year or when you're coming through London. Thank you very much.