Henderson
GROUP PLC

Henderson Global Investors

Thursday 9th February 2017

Andrew Formica, Chief Executive

A warm welcome to those of you in the room here and also those joining us remotely, to the presentation of Henderson's 2016 Full Year Results.

Today's presentation is in three sections. First, I'll take you through the 2016 headlines and cover investment performance, flows and outline the progress that we've made since we launched our growth and globalisation strategy three years ago. I'll then hand over to Roger who will review the financial results in more detail. And then after that, I'll give you an update on progress towards our merger with Janus Capital, following which we'll be happy to take any questions you have.

So if we turn now to the 2016 headlines. We all know that 2016 has been a challenging year on many fronts, not least for our clients and our managers, as politics have moved markets to a degree unforeseen by most of us. Against this backdrop, I would describe our financial performance as resilient, thanks to the progress we've made strategically over the last couple of years. Despite significant Retail outflows, assets under management reached record highs, supported by markets and foreign exchange movements as well as Institutional wins, which are building upon the turnaround we started to see in 2015.

Management fee income was also at record levels, although lower performance fees meant that underlying profit before tax was lower than last year.

Earnings per share were also lower as our tax rate normalised at a higher level, driven as flagged previously to you by changes to global tax policies. We're proposing a final dividend of 7.3 pence per share to take our dividend for the year to 10.5 pence per share, a 2% increase in Sterling terms, which is consistent with our progressive dividend policy.

Strategically, the announcement of our transformational merger with Janus Capital Group has set the course for the next stage of our journey and positioned us for future growth.

I'll start my review of the business by first looking at investment performance. This has been an exceptionally tough year for active managers. For the first time in nearly 20 years even upper quartile managers have underperformed the index. As you can see on the right-hand side of the chart this happens rarely and tends to be followed by a sharp bounce back in the returns of active managers versus the index.

Our three-year performance continues to hold up well, with 77% of assets outperforming, but we're conscious that our one-year numbers are below where we'd like them to be. In general our clients don't dwell too much on short-term performance, however we do make sure, whether performance is good or poor, that they have regular access to our managers and are well informed about our investment positioning and ideas.

Looking at many of our big European funds the toughest period for performance was this time last year when China concerns and the energy rally that impacted markets had a significant impact on our portfolios. In Global Equities the fall off in the one-year performance reflects our funds' lack of US and US dollar exposure. I would highlight however that this has often been cited by some of our clients as the reason why they choose to invest in our Henderson fund in the first place as they often hold us alongside others that have a stronger US bias.

An area where I think there's a positive story emerging is in the Multi-Asset area. A couple of large legacy funds and mandates were just the wrong side of benchmark, which reflects the fact you can see in the numbers here, but does mask some of the strong performance elsewhere. For example the Diversified Growth Fund has delivered ahead of its LIBOR plus 4% benchmark for the last five years on an annualised basis and has the best risk adjusted returns in its peer group.

All in all it's been a testing period for even the most experienced of managers, but one which our teams have navigated thoughtfully and carefully in dialogue with our clients. Looking at investment performance overall our business is benefitting from increased diversity in our investment capabilities.

I'll move on now to flows, starting with the Retail side. 2016 saw a substantial reversal in demand for European assets across the globe, which led to significant Retail outflows, particularly after the UK referendum vote to leave the European Union in June. This reversal was particularly stark in our SICAV range, shown in yellow on the chart here, although there are a couple of bright spots. Nick Sheridan's value focused Henderson Horizon Euroland saw positive flows, as did the consistently popular Henderson Gartmore UK Absolute Return Fund.

Our US Retail team was working really against two headwinds in the latter part of 2016: difficult short-term performance conditions for the European Focus and International Opportunity products, these still constitute around 60% of our assets in the US Retail market, as well as a reversal in client demand for non-US asset classes as the US shifted back towards domestic product sets; which again is not an area that we have for Henderson, but it's something that will be addressed through the tie up with Janus.

Whilst we have announced also our intention to merge our US fund family with Janus I feel this has only been a modest contributor to the outflows. I'd personally also like to take this opportunity to pay tribute to the dedication and professionalism of our team in the US who, despite the upheaval the merger brings to them personally, are working hard to complete it seamlessly and efficiently and always delivering it with a strong focus on our clients.

Our UK Retail range remains well diversified and resilient, with Henderson UK Absolute Return, Strategic Bond, Fixed Interest Monthly Income all continuing to generate strong inflows, in conjunction with increasing interest in our Emerging Market Equities capability.

The biggest source of outflow in the UK in 2016 was our UK Property Fund, which you'll remember we had to close in the immediate aftermath of the UK referendum. Suspending trading in a fund is always a difficult decision, but we're pleased that our clients have been comfortable with the actions we've taken and the way we've communicated with them.

A small but significant footnote in the other category shown here is that our Australian Retail business delivered positive net flows for 2016.

All in all last year was tough for our Retail business, and so far in 2017 there's no significant change. Although outflows have moderated in the US conditions are still difficult in the UK and Continental Europe, with several European elections this year and Article 50 yet to be triggered it's difficult to see any positive short-term catalyst that might see that reverse.

When we look at our Institutional business however the picture is more positive. We've been clear that the long-term build out of our Institutional business through expansion of capabilities and geographies has been a key focus for us. And I'm pleased to be able to report clear progress on building diversity and resilience in our Institutional business in 2016, and this continues into 2017.

Our Institutional flows strengthened through 2016 as you can see here. You'll remember my previous comments that our Institutional teams have to run hard to stand still every year because of the constant run-off from closed-end mandates. 2016 was particularly pleasing when you consider the range of geographies and investment styles that we show up here where we've won new business. It's worth highlighting success coming from our still relatively new Emerging Markets team.

The merger with Janus creates real opportunities in our Institutional business. We will have significantly broader distribution capabilities in the US, Australia and Japan, three very important markets for us. And also if we look at the EMEA region, where we currently sell proactively in the UK, the Nordics and Benelux, we'll be adding through this transaction the dedicated Institutional teams in France, Germany and the Middle East.

With our product line up in good shape we continue to see interesting opportunities to build our Institutional business, and the particular success we're seeing is in Emerging Markets and Credit at present.

The shape of our business has changed substantially in the last three years. Our Retail Institutional balance has shifted towards Institutional, but obviously we retain a very strong Retail base. Alternatives and Non-European Equities now form a greater proportion of our assets. And in terms of geographical distribution almost half our clients are now based outside the UK.

If we add to this chart some industry data you can see where our profile differs from that of the broad industry. The biggest difference is in our coverage of US assets and US clients, which is what makes Janus such a clearly complementary business to Henderson.

When we look back at the objectives we set ourselves for our growth and globalisation strategy I'm very pleased with the progress we have made. If you look over that period we have expanded our investment capabilities, we have demonstrably improved the support and approach we take to client relationships, and we have improved the robustness and resilience of our global operating model. Thanks to our investments we are well positioned to move forward to the next stage of our journey. We have grown faster than the industry in the period, delivered consistently strong investment performance and deployed capital successfully on behalf of our shareholders with successful acquisitions and integrations in the US and Australia.

If you look at the right-hand side of the chart, while the actual underlying segments of our growth in assets has differed somewhat to our target, we have delivered 5% per annum net new money growth. This is compared to an industry growth of less than 3%, which includes all aspects of the market, or growth less than 1% if you just consider active managers on their own.

We've also seen strong market returns, including the performance we've delivered through our active outperformance, as well as successful acquisitions which have diversified the firm by geography and investment capability.

So despite the more difficult picture for flows in 2016 we are ahead of our target assets under management growth, having achieved 59% in total over the three-year period, or 17% per annum since we set out our growth and globalisation strategy.

Looking forward I would like to spend some time discussing our future as Janus Henderson. However before I update you on progress towards the merger I'll hand over to Roger to talk about our financial results in more detail.

Roger Thompson, Chief Financial Officer

Thank you. As Andrew said this has been a transformational year for Henderson. Against a tough market backdrop, which has meant that performance fees were substantially lower, it's actually quite pleasing to report a decline of only 4% in total income, supported by record levels of management fees. The huge focus internally on planning our merger with Janus has not distracted us from careful management of costs, which were down 4% compared to an increase of 15% in 2015, a mark of our ability to shift from investment mode to cost discipline.

Underlying profit of £212.7m reflects the resilience and the quality of our business.

Let's start by looking at management fee drivers. The biggest driver of this year's 8% increase in management fees was markets and FX, in particular Sterling's weakness. You'll remember that nearly 60% of our revenues are in non-Sterling currencies; whereas when we come to look at costs less than 30% of our costs are non-sterling. So we are a net beneficiary from Sterling weakness.

Among the other positive drivers you can see, the net effect from flows was considerably less than at the half year because of the outflows that Andrew has just talked about in the second half. The acquisitions and disposals block here reflects primarily our Australian acquisitions, offset by the transfer of the European Special Situations Fund in June 2015. The sub-advisory insourcing block shows the effect of us moving two US funds in-house from third party managers.

The three negatives are: firstly, one-off adjustments to fees and rebates. These happen from time to time, but as I told you at the half year there were some notable one-off adjustments in the first half related to prior years, and these were offset by some small credits in the second half. Secondly, the reclassification of some from US mutual fund fees from management fees to other income that I told you about at the half year. And finally £3.9m of general margin reduction.

Looking at management fee margins in more detail. You'll see that our average management fee margin for the year was 53 basis points, and you'll remember that our 2015 exit margin was 55 basis points, lower than the average margin for 2015 because of our Australian acquisitions at the end of the year. The main drivers of this year's two basis point average decline from 55 to 53 basis points are the one-off effects we told you about in the half year and mix shifts in the second half, Retail outflows coupled with an increase in institutional AUM and a bit of fee pressure. The exit rate at 52 basis points reflects the continued effect of mix shifts.

Moving on to look at performance fees, as we told you to expect at the half year we earned considerably lower performance fees this year from SICAVs, in dark grey, and offshore absolute return, in red. The reduction in fees in the Offshore Absolute Return category reflects the closure of the Japanese Absolute Return funds earlier this year and lower performance fees elsewhere in the range.

In the SICAV range there were lower performance fees from UK Absolute Return, and no performance fees paid on a couple of our big European equity funds where, as Andrew has highlighted, performance was difficult.

52 funds generated a performance fee this year, a little under half that could have done, so we continue to see good diversification in sources of performance fee.

Next operating costs. Let's start by looking at fixed staff costs. And I've broken out the main drivers in the bottom half of this chart. The main drivers of this year's 13% increase in fixed staff costs are the build out of our Australian business, which I've shown separately, the full-year effect of other 2015 headcount increases, and FX movements, the other side of the positive effect we saw on management fees.

When it comes to business as usual cost increases we told you we didn't expect to see much incremental investment this year. In fact, given market conditions we've taken a few people out, to end the year with headcount of just over 1,000. This means that our business as usual fixed cost increase for the year is essentially the pay rise of an average 3% which we gave people at the beginning of the year. This bodes well for our ability to contain cost increases in 2017 in advance of our merger with Janus.

Looking back at the table at the top of the chart you'll see that we restricted our non-staff cost increases to 4%. For combined fixed staff and non-staff costs we guided to a high single-digit percentage increase. The combination of fixed staff and non-staff was an overall increase of 9%, including FX which added an unexpected 3 percentage points of fixed cost growth.

Variable costs were down 16%, reflecting lower performance fees and a lower share price, but higher bonus deferral amortisation. Variable continues to mean variable at Henderson.

And here's a reminder of our income statement. As guided our tax rate rose to 20.2%, reflecting changes in global tax policy. Going forward I would expect Henderson's standalone tax rate to remain similar to the UK corporate tax rate, which currently stands at 20%, but will fall to 19% in April this year and an announced 17% in 2020.

Lower profits and higher tax, partially offset by a slightly lower share count, gave diluted EPS of 15.2 pence. In line with our progressive dividend policy the Board is proposing a final dividend of 7.3 pence, to take our total dividends for the year to 10.5 pence.

As you can see from the slide, our net cash and total capital positions have both increased. We've recently heard the result of the FCA's review of our capital position. On a standalone basis they've calculated the capital requirement for us of £216m, which gives us capital above our regulatory requirement of around £70m.

We'll give you further update on the proforma capital requirement in our merger documentation.

So in conclusion I wanted to reflect on what we've achieved in financial terms since we launched our growth and globalisation strategy at the end of 2013.

I think we can comfortably claim to have increased not only the quantum but the quality of our earnings in the period. Underlying profit before tax grew at 9% per annum on a compounded basis, which compares well to our UK peers. Management fees accounted for around 85% of our net income in 2016, up from around 70% in 2013. This shift towards recurring income reflects 15% compound growth in management fees, as well as fluctuations in performance fees.

Alongside investment to grow our business we've had to build in significant growth in regulatory spend. Our compliance and risk costs have almost doubled in this time period.

Increased regulatory spend and the increase in our regulatory capital requirement that I've just talked about would have happened whether we'd grown or not, demonstrating the advantages of size and scale in today's asset management industry.

So subject to the agreement of both sets of shareholders the next time I review a P&L with you will be on quarterly basis and under US GAAP. It's good to be able to sign off with a resilient set of numbers, and I look forward to reporting our progress as Janus Henderson.

Now I'll hand you back to Andrew to update you on progress towards the merger.

Andrew Formica

Thank you, Roger. I'll conclude this morning's presentation with an update on our progress towards closing our merger with Janus Capital.

Since we announced the merger back in October we've made substantial progress towards bringing our vision to life. You can see up here the timetable that we're working towards. Our US and our UK merger documentation will be published towards the end of March, and both sets of shareholders will vote on the merger at the end of April. We then, subject to all approvals, need to observe a waiting period until the end of May before Henderson ceases trading in London and Janus Henderson begins trading in New York and Australia.

As well as the huge amount of work underway in our finance and legal teams to assemble all of the necessary documentation, our two businesses are making tremendous progress on integration planning across the piece.

The combined Executive Committee of Janus Henderson is already meeting regularly and is supervising the work being undertaken by the deal close and the integration teams. One of the most encouraging findings to date is the level of alignment in the culture that both firms aspire to: long-term decision making, openness to best ideas, individual empowerment within a strong governance framework are all at the heart of how we will operate as Janus Henderson.

We've made substantial progress on organisational design, structure and governance. We've taken people decisions early where we can. Our regulatory submissions are on track. And also I'd like to thank the members of our US fund Boards for approving the merger of our fund families. We've taken important decisions on systems and data platforms which will help define our operating model.

Through this work our confidence has increased that we'll be able to deliver at least $110m of cost synergies underpinned by detailed work streams covering all business areas. As we previously said, the majority of these will be achieved early in the integration period, and we now expect approximately $80m of net cost synergies by the end of the first 12 months following completion on a run-rate basis.

The implementation costs associated with delivering these cost synergies will be up to $185m, at the top end of our previously stated range, and mostly occur at the end of the 2017 financial year.

You've all heard me say before that there is much, much more to our merger with Janus than delivery of short-term cost synergies. It really is about creating a truly global asset manager, relevant to clients, valuable to shareholders and also a great place to work. It's a business well positioned for market evolution. Looking ahead, we see politics having a seismic effect on markets for many years to come. Diversification is the key to success in uncertain times.

We see global regulators continuing to drive change, meaning that we need operations of sufficient size and scale to meet their requirements without completely blunting our capacity to innovate and invest. And it won't surprise you to hear me say that we see a lasting role for strong, actively managed assets in client portfolios.

Active managers are best placed to anticipate sector shifts, protect capital by avoiding areas with deteriorating outlooks, and also identify tomorrow's winners through proactive engagement. Scale, diversification, and strong client relationships put us on the front foot to move our business forward. Broader investment capabilities make us ever more relevant to major distribution partners. Scale creates the opportunity to invest in brand, technology and data to build and seed new products, as well as driving for operational efficiency. Our unrelenting focus on our clients is the bedrock of our corporate culture here at Henderson and at Janus Henderson.

Our clients can see the value of what we're creating, and if you take a moment just to scan on the right-hand side of the charts some direct quotes from our clients, I won't read them directly, but you can see up here an Australian wealth manager talking about the combination of two strong independent brands. St James's Place focussing on us having the global footprint that they felt we needed to prosper. One of our most loyal UK clients talking about deepening and extending our relationship, and one of our largest global distributors saying that the combined firm will have the products and distribution reach to serve our largest clients on a truly global basis. It's great just hearing our own clients' words how they see the merger benefitting them and their end clients.

It's also particularly pleasing to confirm today that Janus and its 20% shareholder, Dai-Ichi, have invested just over €160m into the Henderson European Credit Fund, testament to their support for the merger and our combined firm. Representatives from Dai-Ichi have spent time with us in London researching further investment opportunities and we look forward to developing our relationship with them further as we build on substantial progress Janus has already made in Japan.

Before I throw it over to questions I'd just like to conclude with a few personal words and perspectives on how I see the next stage of our journey. I'm genuinely excited about the opportunity that this will be able to deliver for our clients as we create Janus Henderson with global investment capabilities and global reach.

I've also had the great opportunity to work with colleagues on both Henderson and Janus side over the last couple of months and I've been really impressed with the quality of the people we have and how well they've worked together. And how many of them, despite the hard work that we have ahead are looking through that hard work at the opportunities that they will get and the opportunities that new business will bring. I really want Janus Henderson to become a destination employer for choice in the asset management industry; and we're building the bedrock through the values and the strategy and the focus we do to make sure that it becomes a reality.

I'm also very much looking forward to having the freedom to invest on behalf of our clients. The scale and diversity that this merger will give us will give us an opportunity to continue the investments that you have seen us make in the past that have been very successful. It's very hard in today's market to make those, given the regulatory spend and the other change agenda that has been forced on us and the scale and size that we get through this enables us to get back on the front foot and deliver those investments that will enable us to grow and build the business successfully, and out of that will come very strong shareholder returns.

When I took over as Chief Executive it was always my ambition to transform Henderson into a truly global asset manager. What we are sitting on today is really on the cusp of achieving that and that for me is, from a personal point of view, very, very exciting about where we are in the business.

I'm sure you have a lot of questions on this so I'm happy now to take any questions. We'll start on the floor and then we'll move to the operator. If you just wait for a microphone so people on the lines can hear.

Q&A Session

Question 1

Arnaud Giblat, Exane BNP

Three questions please. Firstly on the impact of the merger. You mentioned during the presentation that the merger did cause some modest outflows, I was wondering if you could maybe qualify in which areas. For instance have some funds been put on hold or what's happening and what should we expect going forwards in that regard?

Secondly, on the FCA capital review. If I read well, I think your capital requirement went up from £138m to £216m, could you give us perhaps the moving parts, and specifically I was wondering if there was any change in the treatment of seed capital?

And thirdly, Retail management fee, margin declines. On a like-for-like basis what would that decline have been? What I'm trying to get at is what proportion of the decline in Retail management fee margins is down to fee pressure?

Andrew Formica

I'll have a go at the first two and Roger can add to those and I'll let Roger pick up the final one as well. In terms of the merger, look, the first thing I'd say is you won't see us attribute the outflows to the merger. I'm sure at the margin that the merger itself saw some slowdown in gross sales more than redemptions. The impact, the US market, obviously as we've announced the fund families will merge, clients are going to be reluctant to invest in our family until that merger occurs which is still several months away, but I'd say the biggest shift in the US was more a shift back from international assets to domestic assets rather than that, so I'm definitely not trying to attribute the performance you saw for us in the fourth quarter down to the merger.

So in terms of redemptions, very little. There's one or two investment teams where we've notified the investment team line up what will be going forward and those investment teams therefore won't be running the money and that's seen some reductions in one of our areas; some of that was booked into the fourth quarter in December as we notified the clients and some will come through in January. That's on the Institutional side. But generally it's probably a slowdown in gross sales as clients should want to see the merger happen, so rather than loss of business I'd say on that front.

In terms of the capital, you're right that the capital has increased, there's really three areas that the regulator has looked at. The first one is, we along with the industry have typically, as part of our diversification benefit, assumed the support that the insurance arrangements we have in place will offset any operational losses. The regulator over the last 12 months has been taking a much tougher line and effectively excluding that. I think you saw that from one of our other peers that announced a similar thing and as they're going through the review I suspect that will be the case for everyone, so that's probably about a third of that change. You mentioned seed capital in particular, they are taking a more onerous position around the capital risks that they associate with seed capital, so that is increasing the credit charge. You have the credit risk you have to put against seed capital and that's about a third; and the other third is just the regulator saying we'd like to see you have more capital so we'll find a method to do that. That's really the broad three breakdowns. I don't know, Roger, if you have anything further on that?

Roger Thompson

A little bit less than a third in seed, but other than that, yes definitely true.

Roger Thompson

And then on fee mix, without a doubt the largest element is mix shift, so outflows in Retail and predominantly Equity Retail. Inflows into Institutional, a broad range of institutional, so credit and the full range of credit, so including some buy and hold at low fee through to equity at full fees. So of the mix shift probably two thirds, three quarters, is change in mix. We continue to see, I've said for three plus years now that genuine margin pressure of a basis point or two a year is what we're seeing, there's no real change in that Arnaud.

<u>Question 2</u>

Peter Lenardos, RBC

I have a question on the FCA market study. I'm just curious if you see any impact to your cost base, fee margins or just regular disclosure requirements as a result of it?

Andrew Formica

It's a bit hard to see. The market study is an interesting piece of work in the sense that a lot of people, a lot of commentators would say that the tone was very negative to the industry, was very negative to active managers, but if you actually look at the remedies and the discussions they're having around those they're relatively benign and certainly I don't have a significant problem with greater disclosure to clients and greater focus on those, ability to move clients through better share classes and the like, stronger governance arrangements. So all of those, in principle, I don't see a big problem.

To your point of whether we'll have additional costs. Yes. Why? Because any regulatory change has additional costs, but I can't quantify, I have no idea what that would be. Will it have additional regulatory capital charge? I don't think so partly because I think the UK capital regime is probably the strongest in the world already and has the highest charge relative to other jurisdictions, and nothing in the remedies would indicate to me an increase in capital to support the business we're doing, so I don't think it's in that regard.

The regulator is being very open, it's a strong process that they're running and they've done a lot of engagement around and we're actively engaging with them, both through the industry association and directly. And if you asked them on the tone they would argue they don't think the tone is that and that wasn't their intention, so take that for what it is, but the remedies themselves don't look to be so problematic at this stage, but obviously at the final results that come through on what it actually means and the devil could be in the detail.

<u>Question 3</u>

Mike Werner, UBS

Two questions, and the first one, you mentioned that the regulatory and IT spend has essentially doubled over the past three years. What's that in your budget for 2017? I guess if you can try to exclude the M&A impact.

And then the second question. You did note that you will be paying an extraordinary Q1 dividend. How or I guess the timing of that announcement, is that going to be when you release the first quarter AUMs? And then is that also something that we should think about as being proforma as a full year dividend, because you usually do the bulk of the dividend in the second half of the year?

Andrew Formica

I'll let Roger pick up on both of those.

Roger Thompson

Yes, on the costs, there is further increase in our regulatory spend in 2017. The finalisation of some things, and MiFID II is a huge project which we've been working on for three years. It was delayed by a year, I'm pleased we didn't slow down because that is a major project, we're well advanced with it but it's probably a £10m figure in total over the years to deliver MiFID II for a company like this. So that regulatory agenda is not complete, this is why we're saying that size and scale is becoming increasingly important in this industry.

In terms of the dividend, what we wanted to ensure is obviously we've agreed a share exchange, Janus has a quarterly dividend programme as most US firms do, and you should expect us to do as Janus Henderson going forward in terms of a quarterly dividend, although obviously the new Board will need to confirm that. So Janus will do a Q1 dividend, so what we wanted to make sure is that shareholders are treated equally; so what you should be expecting is that we deliver a commensurate dividend in line with theirs. You shouldn't assume that that though is a quarter of the full year dividend, that will be what the new Board sets. As we've said, we would expect the new Board to adopt a new dividend policy very similar to Henderson's. As we said before we don't have a set dividend pay-out rate, but you can see roughly where it's been and it's a progressive dividend as you've seen with this year's results.

Mike Werner

And just the timing of the new announcement?

Andrew Formica

Yes so I think we put it up there didn't we? It will come out with our Q1 statement and then payment in early May.

Roger Thompson

It's paid to Henderson shareholders before close.

Andrew Formica

It's just simply to make sure, as Roger said you should not read anything into its size or quantum, it's about making sure that the dividend distributions up until the day of the merger is equal for both firms.

<u>Question 4</u>

Daniel Garrod, Barclays

A couple of questions from me. The first I wanted to pick up on a granular detail of the AMMS which was around their concerns of whether Retail customers in the UK, whether there was adequate disclosure of performance of funds against objective of the fund and whether under-performance was disguised by the industry in general, whether you felt there was validity in those criticisms from the regulator and what sort of action you thought they might take on that specific point?

And then I had a question on the European Equities desk, you've highlighted clearly there over the one year fallen to 26%, I think that was about 45% performance against benchmark at the half-year stage, so what occurred in the second half of the year to cause that further deterioration and what's the timing of when you think that could impact on the three-year track record?

Andrew Formica

Okay. In terms of disclosure performance to Retail customers just disclosure in general. I think there is a strong push from a number of consumer groups and from the regulator to have greater disclosure. That said there's very little evidence that actually points to disclosure leads to a change in outcome or behaviour, but I do think transparency and disclosure is good. So I don't think it's fair to say that we're not disclosing performance fairly or alternatively on fees as well. And one of the challenges as well is a lot of people when they think about fees point to the asset manager but remember we're only one part of the chain, the charges associated with any platforms that funds are held on and the charges associated with any advice as well, and we tend to get lumped with the entire charges even though through RDR that's all been totally separate.

Obviously the FCA market study - a significant amount of that is around a one charge that clients are being charged. We welcome that. The biggest challenge is obviously what you do around transaction costs which I think the regulator acknowledges the difficulty in something which is an unknown number at the beginning of the year and how you deal with that. But the exclusion of that I think no one has any problems about giving out a figure that's associated with that and measuring the performance against that basis.

In terms of the European Equity desk I mentioned in my note that actually the first quarter was the most difficult period for them. They actually had quite a decent fourth quarter. So the reason for the shift from the first half to the second half in terms of one year number for that desk was more rolling off some good numbers in the beginning of ’15 and maintaining the bad numbers at the beginning of ’16. So given that quarter will roll off you’d expect to see an improvement in the one year numbers as we move through this year just because we’ll lose a bad number but obviously we keep that for the three year numbers for a while.

The three year numbers have held up pretty well actually and I think the more acute issue for last year was European Equity Funds, similar to Global Equity Funds and the US Equity Funds, if you go to that chart I pointed out at the beginning that had the first top quartile managers were still under-performing the index and that's just the nature of generally most funds will have probably a lower large cap bias than the index and then that has an impact in that period of what we’ve seen. But we will see, history tells you that when you have that extreme positioning of the index relative to a participant in the market that you do see a reversal of that. And we’d anticipate seeing that. If we don't see an improvement in European funds you will see the three year numbers deteriorate.

At the moment that's not our expectation, we had a good fourth quarter, continue to do reasonably well in January and it’s just continue to deliver. But markets are difficult as you know.

Question 5

Anil Sharma, Morgan Stanley

Just two for me. Just in terms of the merger and the change at the corporate level I'm just trying to understand have there been any changes in investment team turnover? I mean you mentioned some of it earlier in your remarks but just specifically have there been any fund manager departures related to the deal from the Henderson side?

And then secondly the cost savings it sounds like there's slightly more optimistic commentary around delivery of those or at least it sounds like it could be a) higher and b) quicker. Could you give us a bit more colour as to where that's coming from please? Thanks.

Andrew Formica

You can probably have a look at the fund filings that Janus have put out on the US side of the business. The US merger document for the funds - you'll see which funds Henderson retains, which funds are merged into a Janus fund, which ones of Janus funds will merge into a Henderson fund has been published, as well as some of the Janus funds merging in their own right. So for example, the Janus 20 is merging into the Janus 40 fund, which is nothing to do with us but through this improving and reducing the range.

As we’ve said before the vast majority of the investment teams are quite complementary. We can't go through too much detail at this stage as we’re working through with the individuals affected and the teams, but it’s pretty minor in terms of where there's overlap on the investment capability side. And in Europe, they don't have a UK OEIC, they have a Dublin OEIC and we have a SICAV and we're not intending to merge those fund families because of the tax and implications for clients in that regard. So the biggest merger of fund capabilities is in the US which you can pick up and if you can't find it Miriam and the team will be able to get it for you.

In terms of confidence in the cost-savings well you'd expect I guess with having four months under our belt and teams having worked essentially together for us to be either able to confirm what we'd previously estimated, preferably with greater confidence or not and not surprisingly, given there's a lot of people issues associated with a merger, those ones are ones we're working hard to address as early as possible. Staff don't like uncertainty and we're trying to remove that uncertainty as much as we can. As we do that that enables us to free up our plan to give greater confidence. So you are right to say there's an even stronger conviction in delivery of the targets we've set and not surprisingly, given the progress we're making, more of that being front-end loaded. So the £80m front-end loaded comment is really associated with just the granularity of the plans we have.

As we go through the merger timetable we'll update you as and when we can.

Question 6

Nigel Pittaway, Citigroup

Just a couple of quick questions on the flows if I can? First of all I think when you were going through the Retail flows, Andrew, you said outflows had moderated from the US, but UK and Continental Europe are still difficult. Does that imply that the momentum of those flows has actually slowed a bit or would we be wrong to interpret it that way?

Andrew Formica

Yeah you're exactly right in terms of what you heard, so that is what I said, which is good. In terms of how to interpret it I guess I'd just say we've still only one month of data and we don't try and get hung up too much in one month but there's not a significant change from what you saw in the fourth quarter for us to be arguing a materially different picture at this stage. We are seeing outflows in Retail offset by inflows in Institutional, that's the pattern we saw in the fourth quarter, that's the pattern we're seeing so far.

And the other point I'd say if you look and want to see that change my personal view is just when you look at French elections, German elections, the act of triggering Article 50 at the end of March, I just don't know what will cause clients to have a different pattern to what we saw at the end of 2016. There's nothing changed since the fourth quarter that would mean that it's a materially different picture today and that's why I'm being cautious on that.

Of course it can and of course we're working hard with clients. There's a number of things we're seeking to do but I just worry that the landscape out there continues to have the same issues that it had in '16. We don't see that abating at this stage. So I hope that answers your question, Nigel.

Nigel Pittaway

Yes it does thank you, Andrew. And just maybe if I can just pursue just a bit further on the Institutional flows, I mean obviously within those overall inflows that you're showing on Slide

6 there was one pretty chunky mandate; do we strip that out and say that's a one-off or are you still happy with that sort of trend that that chart on Slide 6 is implying?

Andrew Formica

No look as we've entered 2017 we have a healthy pipeline of net inflows that are unfunded that we expect to fund over the first quarter and first half and we continue to be well received for new mandate wins. Not surprisingly, the consultant channel is a bit slower because consultants will wait to see the merger close, but some of the direct contacts we're having with clients are very supportive of what we're doing. So I think what you saw in '16 was fine and was representative that we continue in a pretty healthy net inflow, unfunded position at the moment for the Institutional book.

<u>Question 7</u>

Simon Fitzgerald, Evans and Partners

Good morning. Andrew I just wanted to quickly check have you quantified what those outflows were in the first month of 2017 post balance date?

Andrew Formica

I haven't.

Simon Fitzgerald

Okay I'll leave it at that one. Also some of the other CEOs of fund managers globally are talking about major asset allocation shifts this year that they're expecting, some of them are talking with their Institutional clients and this is out of bonds and into equities. I'm wondering if you had any thoughts around that and what are some of the expectations you might have in regards to asset allocation shifts that we could see?

Andrew Formica

I think a lot of clients are clearly looking at their portfolios and there's quite a strong concern where bonds might go, particularly given the US trajectory on rates. That said large parts of the world, Japan, Europe, for example, are still very heavily fixated on fixed income investments, given where those are. We're in very different cycles of interest rates across the globe so I think that where you're seeing that shift is different.

You're right the US have always probably had a higher proportion of Equities and they're continuing to look at that given their funding requirements require quite a healthy return objective which they just won't be able to get from Fixed Income at these levels. But I mentioned earlier we're seeing a strong shift towards Emerging Market Equities which through the team that joined us a couple of years ago are really well positioned in that regard. But the other area continues to be credit, whether it's high yield, whether it's investment grade or whether it's Emerging Market Credit, we're seeing pretty healthy interest in that.

So I wouldn't say it's shifting from Fixed Income to Equities. I would say it's shifting from government bonds and low risk bonds in the sense that they see that as the duration exposure is too strong there, into more alternatives, peripheral areas such secured loans or in Absolute Return Bond Funds, so where the duration risk is taken out. We definitely see some interest in that.

Simon Fitzgerald

And just another question on Janus, many people will be aware of the problems that Intec have faced in recent years but there was a material under-performance in that result just past and I was wondering if you had any comments there in terms of what you think might need to be fixed?

Andrew Formica

Given it's our results I don't want to spend time looking through the Janus results and I know you can contact one of the teams there but just on Intech itself very quickly it's a great team, got a very good long-term track record. They are a mathematical equity approach. It's very much a structured approach in terms of what they do and their models that drive their performance and they were impacted by the shifts in market, particularly through the fourth quarter with the Trump presidency. It's not as easy to describe to you like I could with the positioning of an equity portfolio how they're changing their model and adapt and adjust to the market conditions and the long-term track record is that they've delivered a strong return for clients. That's probably the best I can give you at this stage but if you want more on that I suggest you come in via the Investor Relations team here and we can put you in touch with them directly if you'd like.

Simon Fitzgerald

That's fine. And just one final question for Roger if I could please and sorry if I've missed this one but did you give any guidance on a stand-alone basis for Henderson in terms of cost growth for 2017?

Roger Thompson

Given we only do have five months on our own but given current market conditions you'd expect us not to be investing significantly at the moment. So as we said earlier we've moved from investment mode at the beginning of that five year plan to cost discipline.

Closing Comments: Andrew Formica

I just like to conclude the call and thank everyone for their time today, I know some of you have to run off to other results presentations here in London. As I said at the beginning in terms of results it's a resilient result and disappointment in some of the flows outlook for the business but we see a lot going on that supports the strength of what we're doing. And where we sit with the Janus merger things look very much on track and actually building towards what hopes to be a very exciting 2017 for us and all the colleagues here at Henderson.

So thank you for your time and interest. If there's any follow up questions feel free to come to Miriam and the team later. Thank you.