Henderson
GROUP PLC

1H16 Interim Results

Thursday 28th July 2016

Andrew Formica, Chief Executive

Well welcome everyone to Henderson's Interim Results, welcome to those here in London and I understand there is quite a few on the line joining both from London and also remotely from Australia.

In terms of today's Presentation, we cover three time horizons. After I have given you a brief overview of the half year results, I will start by focusing on the immediate aftermath of the UK vote to leave to the European Union, to give you a sense of how we have responded as a business to that result. Roger will then take you through the half year results in much more detail and I will come back at the end to give a longer term perspective, to talk about how our strategy is doing, as we are half way through our five year plan. And how that has prepared us well for the current market and also how we see the future developing from here.

And here you can see the key highlights of the results and what was clear is widespread uncertainty in markets has really been the dominant theme over the first half. Here in the UK, the aftermath of the EU referendum has monopolised the news agenda and the uncertain outlook this poses for both Britain and Europe has caused clients not just in the UK and Europe, but also further afield, particularly in the US, to pull back from investing particularly into European assets.

Our investment performance held up well with 77% of assets outperforming over three years despite a highly volatile market backdrop and also significant reversals in the key trend that drove 2015 financial returns.

Looking at net flows. For the first half it was negative in Retail and Institutional, giving a total outflow over the period of £2 billion. The majority of the Retail outflow came in the immediate aftermath of the referendum result whereas Institutional flows were positive in the second quarter after the outflows in Q1 which we have already reported.

Total assets under management continue to grow with the big positive in the last six months being currency translation effect, a benefit from our increasingly global business mix as sterling declined after the EU referendum.

Underlying profits and earnings were down, mostly because of a reduction in performance fees. The Board however has raised the Interim Dividend to 3.2 pence per share.

I want to start now by looking at the impacts on the referendum result. In its immediate aftermath we focused on four key areas. Firstly, clear and open communication with our clients. Secondly, monitoring investment performance and also the operational metrics on managing our client portfolios. Then taking action where necessary to ensure the fair treatment of all of our clients and finally engaging with regulators, industry peers and policy makers on what impact it may have on the industry going forward.

The political situation in the UK is becoming clearer sooner than expected with Theresa May taking over as the new Prime Minister on July 13th compared to the original timetable that stretched out to early September.

To begin the formal process of leaving the EU, the UK must trigger Article 50 of the Lisbon Treaty. Mrs May has stated that the UK needs to have a clear negotiating position in place before she triggers Article 50 and she expects to do so by the beginning of 2017, marking the start of a two year negotiation period. There is a very long way to go, but a reassuring sense of purpose is starting to develop.

Against this backdrop, we focused on pro-active engagement with our clients to keep them up to date with our read on the situation and the actions that we have taken. We kicked off with a pre-arranged contingency plan on Friday morning after the vote and had fund managers on camera and communicating with clients from the start. Client feedback focused on the timeliness and quality of the materials we distributed and the 50,000 page views that we saw on our Brexit commentary were eight times higher than any regular piece of monthly commentary we would normally put out. In tough market conditions it is more important than ever to honour our brand promise of *Knowledge.Shared*.

Whilst we know, there is little discernible impact on client flows at the time, history has shown us that prompt relevant communication in times of crisis can build brand appreciation and loyalty and have a significant influence on longer-term growth prospects.

The chart behind me, which I know is a busy chart but it is in your pack, shows our top 20 Retail funds by assets under management and their relative or absolute performance in firstly the 11 months to the end of May, then the 12 months to the end of June and finally looking at how we performed in the three weeks since then. What this shows is that despite market volatility, the referendum had a relatively modest impact on the performance of our largest funds. Going into the vote, most of our managers took the view that a remain outcome was priced in so they made sure they were positioned cautiously to limit downside risk. In some cases investment performance has improved since the Referendum. So looking at the top fund on the list, Henderson Gartmore Continental European Fund, the uncertainty fostered by the Brexit result aligned the market better with John Bennett's cautious stance, which meant that his fund, which had large weightings in health care, and a recently built exposure to oil majors did well.

Looking more broadly at investment for the half, you can see up here that our overall three year outperformance is still at 77%, the same as it was when we updated you in the first quarter. So we still have an exceptional long-term track record to talk to clients about. Since the first quarter, the one year number has improved modestly by a couple of percentage points from 52% overall to 55%.

If we look at the weaker numbers in the one year column, European Equities has had a tough first half as many of last year's trends reversed with outperformance coming in materials, cyclicals and energy. As you have just seen, some of our major European equity funds have since seen performance improve since the Referendum result at the end of the period.

If we look at multi-asset performance, it is difficult to evaluate from these charts the apparent deterioration you see here is in fact a small percentage change in a couple of our larger funds. But as you can see, the three year numbers remain strong.

In alternatives, the major cause of the change in one year performance is the Henderson UK property fund. If we were to exclude the property fund from this view, 68% of our alternative assets under management would be outperforming on a one year basis and 100% on a three year view.

I thought you would appreciate a few minutes of insight on decisions we have taken in regards to the Henderson UK Property Fund. On the left of the chart what I have shown is the shape of our daily inflows and outflows through June, until we suspended trading in early July. As you can see, the fund was seeing modest net outflows in the run-up to the vote. The first point to note is that we acted promptly and decisively and we were the first fund to move to a fair value pricing on 24 June in the immediate aftermath of the vote.

The second big spike down was redemptions which came after the first of our peers announced they were suspending trading in their fund on July 4th. Our decision to suspend came at the point where the redemption run-rate reached an unsustainable level and was taken when it became necessary to make sure that the clients who chose to stay in the fund were not disadvantaged. The suspension of trading creates time for an orderly sale of certain assets to re-establish liquidity. There is a keen focus on maintaining the balance made through the fund in terms of properties and tenants and also protecting the attractive income the fund continues to deliver. As an orderly market appears to be establishing itself, the fund team is seeing healthy interests in the properties it is looking to market.

In particular, in relation to London and South-East properties, interest is accentuated by the sharp decline in the value of sterling. We are acutely aware of the frustration a dealing suspension causes, but we are pleased that even in these very difficult circumstances our clients commended us for our openness and timely communication. Top of mind for our clients, is striking the right balance between price and liquidity and the prevailing tone of their feedback is that they understand and respect our decision to suspend.

Next, I want to look more broadly at the operational considerations for our business in the light of the Brexit vote. The message coming through from this chart here is a very clear one of minimal change. We have two product ranges which could theoretically be affected. Our UK OEIC product range is currently passportable into Europe but in practice it is sold primarily to UK clients so there is no change expected there.

Our SICAV range is most actively sold on the continent, with 75% of clients located in continental Europe. SICAVs are run by our Luxembourg based management company, sub-advised to predominantly London based fund managers. It is possible that the Luxembourg authorities will acquire more in country oversight once London based management sits outside the EU, but this will lead to the addition at most of probably a handful of people, quite immaterial in financial terms for the Group.

Turning to regulation, our current assumption, and what we have been told by the FCA is that we will need to continue with the implementation of European regulation notably MiFID II, in order to continue to access the single market. In the UK, I personally am actively involved with policy makers at Treasury and elsewhere in Government, with the FCA as well, both at a firm and industry level, as are many other members here of our management team. There is potential for regulatory divergence between the UK and Europe as part of the Brexit discussion, but particularly given recent changes at the top of the Treasury and FCA, it is far too early to speculate on what direction UK regulation might take.

Turning lastly to flows, we took a look at the effect of flows on previous market shocks to see if there are any lessons we could draw. On the chart, you can see the cumulative effect on our Retail flows of first the demise of Lehman Brothers which signalled the start of the financial crisis, a key moment of risk to the Euro from Portugal and Greece and then finally Mario Draghi's pledge in July 2012. I would say the current conditions feel entirely different to both these scenarios. Whilst sterling has fallen sharply, markets have been stable and even rallied. When considering this chart, the big difference for Henderson today is that we are in a fundamentally stronger position than we were in either of these previous points. Our investment performance, our brand recognition and our client interactions are significantly better than at the other two points highlighted here. You can see the progress we have made when you compare our cumulative flows with the second line on the chart which represents the industry. We have clearly grown much faster over that period.

It should be remembered that the outflows we have seen in the run up to the UK referendum has set us back to where we were in the third quarter of last year. It is clearly impossible to predict how the shape of the curve will develop this time around, but strong investment performance and well developed client relationships should offer us protection.

This chart shows you the Retail outflow pattern through June to the end of last week. This shows a cumulative £1.9 billion in the period shown on this slide and this compares to £1.4 billion in the period we have shown in our results today. As you can see outflows are moderating as we move through the July.

In summary, in post referendum markets, investors are going to have to come to terms with the protracted period of political and market uncertainty. Interest rates will be lower for longer which will hold back overall returns to other asset classes. Whilst I was personally disappointed by the result of the referendum, I have been very pleased with the way that Henderson has responded. Our contingency planning and risk management process has worked very smoothly and everyone in the firm kept the interests of our clients front of mind through what was a very difficult period for them.

Once Roger has taken you through the results, I will come back and talk about how I think our strategic positioning has helped us in both recent weeks and months and how it will move looking forward, but for now, Roger.

Roger Thompson, Chief Financial Officer

Thanks Andrew. As Andrew said, the first half was dominated by the political and market uncertainty both before and after the UK referendum. These conditions resulted in a decline in our income mostly driven by a reduction in performance fees. Expenses also declined in the period and I will talk in more detail later about how we are actively managing our cost base. The result is lower profits than last year, but it is worth bearing in mind, this is only the third time in our history we have generated underlying profits in half a year of over £100 million, evidence of how our business has strengthened.

Let’s start by talking about flows and first Retail flows. This slide shows you the quarterly trend. Not surprisingly June outflows represented almost 90% of the first half total. Looking in detail at each of our product ranges. US Mutuals in orange, were virtually flat for the half, positive through May, but negative after the UK referendum in June. The biggest outflow in US Mutuals was from the European Focus Fund as US investors pulled back across the board from European exposure. Looking more broadly across the US range, we continue to see inflows into an increasingly diverse range of styles. Global equity income and strategic equity income.

In the SICAV range in yellow, the biggest outflows were in European focused funds. These were balanced by positive flows into Henderson Gartmore UK Absolute Return and Nick Sheridan’s Henderson Horizon Euroland, which has seen excellent performance and provides a good option for clients seeking to invest in European equities but avoiding UK exposure.

Clients in France, Germany and Switzerland have adopted a more domestic focus whereas clients in Italy and Spain have remained more outward looking. That said, there is no sense of a buyers strike against UK managers and no sense of continuing large scale redemptions.

And in the UK in blue, the majority of our Q2 outflow came from the Henderson UK Property Fund and the closure of the optimum fund range. Beyond these two effects, flows were relatively muted with demands strongest for the UK absolute return and fixed income strategies.

Our focus in the UK at the moment is on good communication with clients in our Property and European focused funds and on promoting reliable sources of income and absolute return as well as emerging markets.

Overall, whilst I would summarise the flow picture as clearly negative for the second quarter there are elements of diversification which should help us recover. The US Mutuals product range is broadening, there is geographic diversity within our SICAVs, and in the UK our business is well established and balanced.

Looking at Institutional. The story here is of an increasingly global business. So on the slide I have added some detail to show how our net flows are segmented by geography. In blue, the UK and Europe is our largest and most established region institutionally and therefore shows the greatest variation quarter on quarter. There is always an element of running hard to stand still in this business because of the closed end fixed income mandates maturing. So far this year you can see the effect of the specific mandate losses we talked about in Q1. But there have also been some good wins in various fixed income strategies by UK clients. We have also got a developing pipeline in Continental Europe across both equities and fixed income.

In Australia in yellow, from Q4 2015, you can see the start of the effect of our acquisitions balancing the global equity enhanced index mandate we have been running for a while. In the first half, an existing client added substantially to their fixed interest mandate and our newest Australian equities mandate also continued to add. The pipeline is looking good both domestically and for some of our offshore capabilities including global emerging market equity.

In the US, the picture remains mixed. In Q3 2015, you can see the effect of the First Trust closed end mandate. But Q1 2016, by contrast, was dominated by outflows from a global equities mandate. Encouragingly Henderson Geneva helped take US Institutional flows positive for the second quarter with two mandate wins in Small Cap.

Whilst the lumpiness of our Institutional business will always make it difficult to identify a clear trend, I am encouraged by the increasingly diverse sources of flow, by client, geography and strategy. You will have seen from the St James' Place announcement yesterday, they are proposing to add Glen Finegan's Global Emerging Markets Funds to their platform. A timely piece of evidence to our developing Institutional pipeline for emerging markets. The more our Institutional client base builds and diversifies, the more resilient our business will be.

Now moving on to look at management fees. On this slide, I have given you a bit more information than we normally do to help explain what has driven the movement in our management fees between the first half of 2015 and the first half of 2016. As you would expect, the biggest driver is the strong flows we saw in the latter part of last year followed by the growth from our Australian acquisitions. Markets were negative, but were more than offset by FX translation effects. If sterling stays at its current level, the effect will be even larger in the second half. For your information, nearly 60% of our revenues are driven by non sterling currencies, whilst only around 30% of our costs are non sterling. The negatives are £5.6 million of one-off adjustments to our fees and rebates which were booked in the first half of 2016, but related to prior years. A reclassification of some US mutual fund fees from management fees to other income and £3.2 million of general margin reduction.

We have always talked about there being one to two basis points of margin pressure a year in our Retail business and this has been masked in previous periods by positive mix shifts.

Now moving on to look specifically at management fee margins. Back in February, I told you that our 2015 exit margin was 55 basis points, lower than the 2015 actual as a result of our Australian acquisitions. You can see that our actual revenue margin in the first half is lower than this at 52.9 basis points. Adjusting for the one-off reductions to management fees I showed you on the previous slide, this takes us back to an exit margin of 54 basis points. The one basis point fall from the full year exit margin to the half year exit margin is due to the Retail outflows and the ongoing margin pressure I showed you on the previous slide.

Moving on to look at performance fees, you can see from the chart that we earned considerably lower performance fees from SICAVs in grey and from our offshore absolute return fund range in red, compared to the first half of last year. 29 funds generated a performance fee in the period, about half of those possible, i.e. those with first half crystallisation dates. So we continue to see good diversification in sources of performance fee. The difference in fees in the absolute return category is mainly linked to the closure of our Japanese Absolute Return funds which we referenced in our first quarter announcement. In the SICAV range, the main difference between this year and the first half of 2015 is that there were no performance fees paid on a couple of our big European equity long only funds. You will remember however in our SICAV range if we outperform on a relative basis, but don't reach an absolute high water mark, performance fees are held over. If performance is maintained, these fees are paid the following year if that high water mark is reached. The slide shows you when this last happened in 2012 when £6.3 million of performance fees were held back in this way and paid as part of the record performance fees we earned in the first half of 2013. The equivalent number in the first half of 2016 is similar, there is obviously no guarantee that these will get paid next year.

Next costs. On this slide I have shown you the trends across our cost base over the last 18 months. The key to this is headcount. As we have invested in our business in 2015, we added almost 100 heads, in investment management, distribution, IT and operations and assurance functions. 35 of these were directly linked to our Australian acquisitions and the build out of that business. Each new head was signed off by me and the particular ExCo member responsible. So I am confident we added people in a disciplined manner to support out growth and our regulatory agenda.

So far in 2016, we have held headcount flat. This is consistent with what we have been saying for a while, that our focus has shifted from new investments to supporting the investments that we already have in place. If you look at the fixed cost waterfall at the bottom of the chart you can see that the growth we have seen this year is driven by those 2015 headcount increases, despite a 3% annual salary increase which took effect in April, business as usual cost increases are flat. And you will note that we also have a £1.1 million adverse variance from currency.

In the current environment, we are focused on controlling our costs, but at the same time protecting our investments so we can reap the benefits from them over time. We have also taken action on our non staff costs which are down 5% so far this year compared to the second half of last year. Overall we are tracking in line with my February guidance of high single digit growth in fixed costs in 2016 despite the adverse currency moves. Slightly higher on staff costs and slightly lower on non staff costs.

Variable compensation was £17.4 million lower than in the second half of last year. In the interests of fair disclosure I should point out that around £5 million of this difference is connected with the fall of our share price. However there is also £6 million more in ongoing deferral costs for the same period of last year. When you bear all of this in mind, I hope that you will come to the conclusion that variable really does mean variable at Henderson.

And here are our key ratios. As you know, our primary strategic goal is to grow and globalise our business and as we do so, to increase our absolute profit levels. In terms of our key ratios, we have always said that these should improve as we grow and globalise our business as long as markets remain supportive. Whilst we still have ambitions to improve our margins, maintaining our operating margin in the current condition is a good outcome.

And here is the remainder of our income statement. Our tax rate rose, as guided to around 20%, in fact slightly higher due to deferred tax reversals given the fall in our share price. The result of lower profits and a higher tax rate, partially offset by a lower share count is an underlying diluted EPS of 7.1 pence per share. The Board has set an interim dividend of 3.2 pence, you should see this as evidence of Henderson's progressive dividend policy which should see us grow ordinary dividends broadly in line with earnings over the medium term, but also as a step nearer to a one third, two third payout between the first and second halves.

And I will conclude with a few words on cash and capital. We repaid our £150 million senior notes from cash resources in March meaning we are now debt free. As previously explained our cash resources seasonally dip in the first half due to payment of dividends and bonuses before building in the second half. Our capital above our Group requirement has risen from year end to £105 million. The interim dividend and our previously announced £25 million buy-back which will complete in the second half, are already deducted from that number. As previously discussed, the FCA is due to review our capital position in the second half following the expiry of our capital waver in April 2016.

And with that, I will hand you back to Andrew.

Andrew Formica

Thanks Roger. Our Presentation up to now has been deliberately short-term, centred around the referendum, given the importance of those events over the last few weeks. But what I would like to do now is spend a few minutes taking a longer term view, given they are at the midpoint of the five year plan we set out in 2014.

So at the mid-point in our plan, we are exactly where we said we would be, despite many telling us at the start that they thought we were being ambitious. Our net new money growth in the period, the two and half year period shown here is 7% compared to a target we had set ourselves back then of 6-8%, and also with the industry having only grown 3% over that period. So notwithstanding what was a difficult first half, we have achieved an organic growth target that has more than doubled that of the industry for a period now. We have seen market and FX growth of 7% and this has compared to an assumption of around 4-6% and we have also generated 3% of growth through acquisitions.

We have executed well in our strategy and delivered strong investment performance for our clients as well as broadening our global client base and strengthened our financial position. Our business is stronger and more diversified with significantly improved opportunities for future growth.

If we look first at the performance of the new investment teams we have added over the last few years, here is a slide I showed you at the full year and we have updated it for performance until the end of June. What you can see straight away is that the sea of green is pretty much intact. There are also a couple of significant changes. So for example there is now a one year track record for Glen Finegan’s Global Emerging Market fund. We are seeing a strong improvement by Andrew Gillan and the Asian Growth team. And we now have a strong three year track record which Kevin Loome and the US High Yield team have achieved.

I will just focus for a minute on global emerging market equities. Our distribution teams worldwide are doing an excellent job in promoting this fund and Glen himself would tell you himself that he has been pleasantly surprised at the speed at which interest has built. One of the aspects of Henderson’s approach is it has helped build interest with larger clients, is that the fund is available in many formats. We have a US mutual fund, a SICAV, an OEIC and shortly an Australian Unit Trust. As well as providing separate accounts for our Institutional clients. The global pipeline is building very nicely and as you will have seen from the St James’ Place announcement yesterday that Roger referenced, this is already starting to get traction with some very key clients.

Diversification is key to sustainable, profitable growth at Henderson and all of the teams on this slide are doing everything we have asked of them to diversify our investment management capabilities. We also continue to make good progress on diversifying our global client base.

The last two and a half years has seen a considerable shift in the geographical diversity of our assets. The UK has come down from around 70% to 50% of our business in just over two years and we expect this trend to continue given the investments we have made abroad. I should highlight that the UK remains a strong core market for us with a well balanced Retail business and good opportunities institutionally. Continental Europe and Latin America has seen strong organic growth which has led to a broader client base. In North America we saw the benefit of diversification in the second quarter with positive net flows in Institutional just as Retail flows turned negative. Historically in our US business we have raised assets which flowed principally into European and International equities. Strong performance in Henderson Geneva's US quality growth equity style and also the US High Yield performance, give us an opportunity to start to redress this balance.

In Australia, the Perennial acquisitions continue to bed in well. Flow momentum has remained good throughout the integration period led by the Tactical Income Fund which has now passed the two billion dollar mark. We have started to see opportunities to broaden the platform relationships which came to us with the acquisitions with interest notably in our global emerging markets capability developing well down there.

So if we look ahead, it remains hard to predict when market uncertainty will start to dispel, and our sense is that investors will remain on the sideline until visibility improves. That said, Retail net outflows are starting to moderate and we are very pleased with the shape of our Institutional pipeline which is the strongest it has been for a number of years.

If we are looking more broadly, we are fundamentally a stronger business than we were when we set out our strategy two and a half years ago. As you have seen throughout this presentation, we have successfully grown our investment management capabilities, our client base and our brand and there are some great new teams within the business ready to realise their potential.

Our plan is to stay close to our clients, stay vigilant on costs and stay true to our strategy. We are staying the course. As markets stabilise, which they inevitably will, we will see the strength in the business and our promising recent investments come to the fore and drive future sustainable growth.

With that, I would like to pause and take questions. We will start with questions from the floor and then go to those on the line.

Questions and Answers

Q1. Hubert Lam, Merrill Lynch

Hi good morning, it is Hubert Lam from Bank of America Merrill Lynch. Three questions if I may. Firstly on non comp cost growth. I think Roger mentioned you still expect high percentage growth this year, but I am wondering into next year, should we expect that to moderate?

Second question on flows. You are saying from July, flows in Retail are starting to moderate, is that mainly because of gross outflow slowing or you are actually seeing some people stepping in right now in terms of gross inflows?

And third question also on flows, in terms of the Institutional pipeline, you are saying that is quite strong, any indication how big that is and are you actually seeing – do you expect – institutions to take longer to fund now given the uncertainty?

Andrew Formica
Thanks Hubert. I will take the second and third questions and I will get Roger to update you on the comp cost question there. In terms of the flows, moderation in flows. Well I think you saw in the immediate aftermath of the referendum result was redemptions picked up. So what we have spoken about prior to that in the first quarter results was that you had seen really a slowing of gross sales, but not a pickup in redemptions in the first quarter. The Referendum itself caused people to just pause in their investments and actually I would say, build up a reasonable amount of cash.

On the result itself and in the very immediate aftermath, you did see redemptions pick up and what we are seeing now is those redemptions starting to slow down. So the immediate effect was just a flight to cash and flight to quality.

That's moderating. You have yet to see growth sales start to pick back up, but I think one of the things you are seeing is that because things are starting to be more stable and the political situation is starting to get to a position quicker than people thought. I suspect this does not feel at all like it did in 2008 or even 2012 because you are not having the large market gyrations over the last two or three weeks and sterling has stabilised at a level and markets have been flat to trending upwards. So I think people would adjust to that. Obviously we are hitting the quiet period now with July and August. So if markets stay around here as we come out of the holiday period, people will then start to look at where they are. And I would say generally people had quite high cash going into this and therefore remain quite cashed up. So if they get confidence that markets are not going to be that volatile there is a lot of money to come back to work. There is not a lot of leverage in the system, not compared to where we might have been in previous downturns, so hopefully that will give you some context on the short term, on what we are seeing.

On the Institutional side, I don't want to put a number to it, my comments have said it is the healthiest we have seen for a long time. It is quite broad based across a number of asset classes and also investment capabilities and regionally - Australia and the US are picking up following the acquisitions we have done down there as well as seeing strong growth and Roger referenced the St James's Place one yesterday in Emerging Markets as examples of continuous strength in this market as well. Like anything, Institutional flows, until they are really in the door you are always going to be cautious on those. What I would say as a trend, Institutional accounts have not seen really a shift based on the EU referendum result, but I think we are seeing a greater interest in non European growth, whether it is emerging markets or some of our capabilities in the domestic market of Australia and US have come to the fore. And that is a combination of our performance, our capabilities and I think clients looking to their asset allocation decision.

Roger Thompson
And on non staff cost. Think about what drives that. Headcount is a driver of it. So as we are holding headcount flat then that won't increase. The size of the business is another driver of it, it has got our investment admin costs in there, so the size of the

business, the number of transactions etc, drives that. The success of the business will influence that. And business opportunity. So if we see more opportunity we will turn the tap back on in areas such as marketing where we have trimmed back. And the last thing I would say if you have got to think about FX in there. Technology costs tend to be driven by dollars. Market data costs are getting more expensive. So that is where the inflation is, it is probably in technology.

Q2. Arnaud Giblat, Exane
Three questions please. First could you maybe expand a bit more on Retail flows coming out of the US. Historically over the past few years you have benefited from a lot of appetite for European equities on the active management side coming out of the US. That clearly seems to have turned. I wonder how quickly you think appetite for European equities can come back in the US?

Secondly on margins, your Retail margins seem to have dropped from 73.6bps to 72bps, I am wondering if that is a mix shift or if there is any margin pressure whatsoever in equity given categories?

And finally could you give us a bit more flavour as to how things are going where you have reached a three year track record in high yield and other new fund launches?

Andrew Formica
Thanks. In terms of the US you are right, we have seen considerable success over the last few years, not just in our international products, Global Equity Income and International Opportunities, but in particular our European Focus fund. I think what you see in the US is some reduction in exposure to US and European Equities and you will have seen that through the statistics that the US put out. And given we were so strong in the category, we are not immune towards the outflows in that regard. I would say our International Opportunities and Global Equity Income in particular are holding up very well. So the global and international ones are ok – it's really concentrated around the European exposure.

It actually has not been as bad as you might expect coming out of there, though what I would say is that it was a core asset allocation decision by many of the major wirehouses and broker dealer networks to move to an overweight position in Europe and I don't think at the moment they made their decisions on where they want to be longer term. So the good thing about the quality of the client base we have there is they are very long term in what they are thinking, they are not just the short term movement in portfolios, but they will be assessing the situation in Europe and taking a view of how that does relative to the domestic markets and the like. There is clearly uncertainty in the US around the upcoming election in the domestic element. And that will remain and certainly that is happening over there evades that fear. But I would say that you could see the exposure to Europe remain at reduced levels and could even be at risk of coming down further at this point. I think it will be a while if they were to reduce their expose to Europe for it to come back. But I would say we are also moderating that by our International Opportunities and Global Equity Income. But increasingly also the domestic capabilities.

You mentioned the three year track records, US high yield for example. High yield is not something that is necessarily in favour at the moment as well, but our track record bodes us well when that does come in, and it is one of the things that we look constantly at of supporting that business because the numbers there are outstanding when you look across peer groups.

In terms of the margins I will let Roger update you on that.

Roger Thompson
Retail margins as you say, exit at 72 basis points as opposed to 73.5 last year. So we have always talked about a basis point or two of general margin pressure and I think particularly as we grow. So where we see that most is either US fund ranges, giving tiered fee breaks and also just general larger clients, we are dealing with a lot of the major distributors, as they get bigger there is price pressure there which I put in the good category. So general price pressure and a little bit of mix on it.

Andrew Formica
And you touched on funds capabilities that have three year tack records. Obviously US high yield great performance, the asset class itself is yet to gain real traction, but when that does come back, we are really well placed. Interestingly agriculture has been an area of good growth for us, very strong numbers you can see on the chart there over a consistent period and that has seen steady inflows. We spoke about the US small cap capabilities, we had a couple of wins in the first half. We continue to see wins in that space, so that is doing very well. And on Australian equities, actually they have got a very interesting Australian long short fund that just hit a three year track record, great numbers there. And we are starting to see some traction in that regard. So a number of these investments as they get to three years and beyond are starting to build. It will be modest, it will build slow, but that momentum starts to add to it so we are quite encouraged certainly by the performance and then the opportunity that therefore gives us in more regions.

Q3. Gurjit Kambo JP Morgan Cazenove
Good morning. Just on the regulatory environment, obviously we have the market study review where the schedule was due to come out in August, it feels that may get pushed back. Are there any thoughts on that given what is going on in the UK?

Andrew Formica
It is probably too early to give anything on the FCA market study. We were one of the participants and asked to submit a lot of data. We have had several conversations with the team looking at it. Certainly there does not appear to be anything coming out that is like a smoking gun or anything, it has been very quiet what is coming out. There are some people saying, wouldn't it be best given the work the FCA has, to put this on hold. I think they are quite well advanced in the work they have done so I am not sure if it will be delayed at all. Andrew Bailey has only recently joined at the beginning of this month and I am sure he will be taking a keen look at it. The timetable has been set for mid-September to release the initial findings or first part of the consultation, I suspect that will slip, though I have nothing to point to as to why that will be the case. At this stage we are working on the assumption that the FCA market study will continue in its current form unless we are advised otherwise and there is nothing we have seen yet to do that. Though I would say the FCA is quite swamped with post Brexit sort of work and with Andrew only just recently joined, I am sure he is looking at his management team and putting in place a structure and approach that he would like. So we have not yet had an opportunity to have a lot of time with him on this particular point. So I think it will become clear over the next couple of months, but now you should work on the assumption that it is going ahead.

Gurjit Kambo
And just one follow-up question, I may have missed that as I was a little bit late, in terms of the commercial property and suspensions. I think certain asset managers have gone that route and some have gone down more a pricing route. What are the considerations when you made that decision and is there any - do you have to discuss this with the regulator in making these decisions?

Andrew Formica

Yes we kept the regulator fully informed throughout the period and obviously there is a slide in the pack that if you go back you'll see we talked a bit about this. The redemption spiked after the suspension on the first fund on 4th July and we suspended on 6th July. In terms of taking, the interest we took very clearly and as responsibility for managing the portfolio, is looking at the interests of all clients and is certainly not in the interests of those leaving to make sure that any sales that occur leave the portfolio unbalanced in terms of its current mix and make-up. And also for those leaving, given the liquidity constraints in the marketplace at the time, it is not in their best interest to get fire sale prices. We are in the process of building up healthy liquidity levels in the portfolio and we have been able to transact properties around the level of the NAV and the portfolio at the time that the suspension occurred. So we are not seeing a reduction in overall value. And that is probably driven by the fact there are quite a lot of buyers coming in from non UK buyers with sharp fall in sterling affecting that. And we are making sure as well that the properties we are marketing keep retaining the balance across the portfolio in terms of the mix of types of portfolios, the tenancies, the income structure of the portfolio and we are very pleased with how that is going. I would have to say an orderly market in property appears to have returned. There is certainly not panic selling or a lack of buyers out there as well. And that is exactly what clients are looking for. The majority of clients wish to remain in property and are long-term investors in it and therefore they want their interests to be maintained through that and we are able to do that. So whilst it is difficult and not a decision you take lightly, I do think it is being done in the interests of clients and the communication we have had with clients throughout the entire period has been well received by them and we have had some very positive comments on the fact they feel engaged and communicated with throughout that process.

In terms of the regulator, they are fully aware of us and fully supportive of what we are doing. Whether there are any changes from a regulatory point of view down the track, that is a possibility, but I would say that is medium to longer term, there is nothing immediately going to change because the regulator wants to see us through the period. And you have to say, if you look at these funds, they have performed incredibly well even during this period. For 99% of the time they have done exactly what clients are after and even in the period where liquidity has been constrained, getting the balance right between price and liquidity and balancing clients. I think it is a very good outcome overall and I think the regulator accepts that and recognises that.

Andrew Formica

Any other comments from the floor here? If not we will go to the lines and see if there are any questions on the call.

Q4. Simon Fitzgerald, Evans and Partners

Good morning guys. I will just ask these questions one at a time. Firstly in regard to the transaction income or net other operating income of £19 million, I just wanted to know if there was anything unusual in that this time around?

Roger Thompson

No is the answer to that.

Simon Fitzgerald

Next question on the variable employee compensation of £67 million, I just want to get a handle if there was any sort of payments on last year's performance in that? I guess I am just trying to understand whether that is a reflection of the first half performance etc?

Roger Thompson
That relates to this year, no carried forward.

Andrew Formica
The only carried forward element Simon is the deferral element and Roger referenced that, bonuses are deferred over three year periods and of course there are very high level of bonuses in 2015, the deferral element in 2016 related to those is higher than the equivalent period last year and that is about £6 million. That is offset by the reduction in the share plan costs that would come through. So those two about wash themselves out, but you need to remember that element and therefore the deferral element for this going forward will be lower next year than what you have at this year.

Simon Fitzgerald
Understood. And just on the finance income of £5.5m, I'm just wanting to get a handle of what that might look like for the full year. And just in light of what you mentioned before in terms of now going to net cash?

Roger Thompson
So again that £5.5m you should consider as run-rate.

Simon Fitzgerald
And last one, and sorry if you mentioned this already Roger, but the absolute return funds, in terms of that high water mark, can you just give me a bit of a handle in terms of how far they might be off those?

Roger Thompson
So that fund has quarterly performance fees, it paid a performance fee in the first half. It is slightly behind in the second half.

Simon Fitzgerald
Right, thank you very much.

Q5. Nigel Pittaway, Citigroup
Hi Andrew and Roger. I am just wondering, just one question actually. I am just wondering if I could delve just a little bit more into that variable cost reduction. It seems to be quite a bit more than justified by just the reduction in performance fees. You have obviously there is 5 down for the share price and 6 up for the roll through of bonus deferrals. Can you give us more colour of what explains the remainder of the movement there please?

Andrew Formica
Look, I think Nigel, the main thing would be as we said last year, the variable comp reflects the overall shape of the business, some of that is obviously performance fee element. But the other element is the success of the business and that is judged on investment flows, investment performance. Both of those are softer than the same period last year. The number of business metrics associated with that, the financial metrics for the group, which are softer than the record period in 2015. So not surprisingly the overall bonus pool for the group is going to be lower than we would have applied for last year and that is what you are seeing in the numbers as well.

Q6. David McCann, Numis
Morning, just a quick one. What is the outlook for performance fees as you see it today?

Roger Thompson
You know that is my favourite question David. I think the only thing I would say is that normally we say that the performance fees are weighted towards the first half and that is because the long only SICAVs have a crystallisation date of 30th June, so you have got that in the first half and not the second half. Obviously they didn't, as I described earlier they did not crystallise in this period so you probably haven't got that first half, second half bias that we have had before, but obviously actual performance fees in the second half will depend on actual performance.

Andrew Formica
I would add to that David, obviously the breadth of our funds that pay performance fees, remains there. It was nearly 30 funds in the first half. We continue to have a broad based book of business, so whilst performance fees have been held back this year, is the same period as last year, there still remains healthy potential performance fees in the Group.

Q7. Anil Sharma, Morgan Stanley
Morning, apologies I joined a bit late so I am just wondering, has there been an update on the non comp cost guidance at all?

Roger Thompson
So overall, Anil, the guidance I have given for fixed costs in total is similar to the guidance at the beginning of the year which is high single digits, that includes the FX impact. I said it was slightly higher on staff costs and slightly lower on non staff.

Anil Sharma
Got it. And does that include any additional costs you think you might need to incur following the referendum?

Roger Thompson
Again, Andrew talked a little bit about this earlier, in terms of the operational impact, then we think that is fairly minimal. Again that will come out over the next few years. The potential of us needing to add a handful of people in Luxembourg, but again that will be totally insignificant for the results of the Group and several years down the track.

Anil Sharma
Got it. And sorry just a last one from me, I did not catch what you said in response to the revenue margin on the Retail book. If you could just repeat that, that would be helpful?

Roger Thompson
The revenue margin it has come down from 73.5bps to 72bps and we have always talked about margin pressure of a basis point or two a year and a bit of a mix impact. So 72 is the exit rate.

Anil Sharma
And you have cut prices or competition or what has happened there? You have always talked about margin pressure in the Retail bit, but I am trying to understand the decline you have seen, has that been driven by an active decision by Henderson to lower some of the fees or competition or something else?

Roger Thompson
There is a little bit of composition in there of mix and there is also, we are dealing with bigger and bigger distributors and that is where we see the primary price pressure, but that is nothing different than we have seen for the last few years.

Q8. Nick Burgess, Baillieu Holst
Morning gentlemen, just a couple of follow-up questions on the UK property fund. £3.6 billion sterling I think at 30 June. Can you confirm the size when it was suspended?

Secondly when you talk about rebuilding the liquidity, what level of liquidity do you want or need as a percentage of the fund before you get close to reopening it and at what sort of comparison is that to what liquidity normally runs at in the fund?

Andrew Formica
Thanks Nick. In terms of the property fund size, you are right it is about £3.6 billion at the end of the period and modestly below that probably somewhere £3.4 billion at the time of the suspension.

In terms of liquidity levels, the fund we will say in sort of extreme situations like now you try and build liquidity around 20-30% they are the sort of levels you would be looking to. It was when the fund was dropping below 10% and towards that single digit liquidity level, that the suspension decision was taken and so you would want to be going up to that sort of period. What I would say is the market remains quite open and orderly at the moment, so we are working hard on achieving an appropriate level of liquidity for the portfolio and to maintain that balance and diversification in the portfolio. Once suspended we said we would review every 28 days so obviously the fund management company, the Board overseeing the fund will take a view at the end of the period so early in August to see where the portfolio is in relation to the market at that point.

Q9. Paul McGinnis, Shore Capital
Good morning guys. Could you just confirm that you are still targeting a convergence of the compensation ratio and the operating margin around the 40% level and whether there is a specific timetable around doing this?

Roger Thompson
There is definitely still upside, as I say I think keeping the margins constant this year was a good result. You remember when we talked about improving, setting out the whole strategy around growth and globalisation, it was around doubling the business to £127 billion. We have made great progress but we are not there yet. And in addition, Andrew has talked a bit about the new teams we have added, that is where we have added a lot of investment and as we have shown you with the performance page, they are performing very well but there are very few of those that are currently at scale. So getting those to scale and continuing to see scale efficiencies from our infrastructure gives me, I can see upside from where we are, but we have got to continue to grow the business and leverage those investment teams we have invested in over the last 2,3,4 years.

Q10. Brett Le Mesurier, Velocity Trade
Hi just one question. On margin compression on Retail. From the numbers you put out, it looks like there is more severe margin compression in UK Retail, is that fair comment?

Andrew Formica
I am struggling to hear the question, the lines aren't great.

Brett Le Mesurier
It is on the Retail margin compression, based on the numbers you put out, I calculate the greatest compression is in UK Retail, is that fair comment?

Roger Thompson
I am not sure it is. And again I think there are a number of things in there. Outflows from property will actually improve our margin because that is where we share the revenues with the sub-advisor. And we had outflows from the Optimum fund range which was also at lower fees. So I don't think that is the case no.

Andrew Formica
It would be more the European range in the basis that as we have got larger and also the global distributors that we work with, who are looking for more uniformed prices. And some tiering in the US due to success there as well. I don't think it would be UK.

Moderator
There are no further questions waiting

Andrew Formica

Well thank you all for your time this morning and those calling in from the evening in Australia. As you can see, whilst the EU referendum result here has had an impact, particularly post that in terms of the flow picture of our business, the business is in a much stronger position overall. And if we look taking a snapshot of where we are two and a half years into a five year strategy we are bang on doing everything we said we would do with a number of opportunities developing because of the investments we have made. So in that sense this is a much stronger and more resilient business than it may have been say just five years ago.

And I would also highlight that whilst conditions have been difficult in the last few weeks or so, we do see that moderating and improving and it does not feel like, in terms of client behaviour or market behaviour, anything like some of the more recent crises the market has had to deal with, whether it was the Euro back in 2012 or the financial crisis of 2008/09.

But we will keep working on developing the strategy as we have before. You should expect to see the vigilance in terms of the cost discipline we have, but there is certainly no change in strategy or anything we are trying to do there because we do see the success that is coming through already from the strategy.

If you have any further follow-up questions, obviously the team here, we are happy to take any questions today or over the coming days.

Thank you.

End of Presentation