Janus Henderson GROUP PLC

Janus Henderson Group plc – 4Q17 and FY17 results conference call
Tuesday 6th February 2018

Operator: Good morning. My name is Nicole and I will be your conference facilitator today. Thank you for standing by and welcome to the Janus Henderson Group Fourth Quarter and Full Year 2017 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question and answer period. In the interest of time, questions will be limited to one initial and one follow-up question.

In today's conference call, certain matters discussed may constitute forward-looking statements. Actual results could differ materially from those referenced in any such forward-looking statements due to a number of factors including, but not limited to, those described in the forward-looking statements and risk factors sections of the company's registration statement on file with the SEC. Janus Henderson Group assumes no obligation to update any forward-looking statements made during the call. Thank you.

Now, it is my pleasure to introduce Andrew Formica, co-Chief Executive Officer of Janus Henderson Group. Mr. Formica, you may begin your conference.

Andrew Formica: Welcome everyone to the fourth quarter and full year 2017 earnings call for Janus Henderson Group. Today, I am joined by co-Chief Executive, Dick Weil and also Roger Thompson, our CFO.

Similar to prior quarters, the presentation today has three sections. Firstly, I'll touch on the full year 2017 results and then take you through the fourth quarter business results covering off on investment performance, client flows and a few financial highlights. I'll then turn it over to Roger to review our financial results in greater detail and to wrap up the presentation, Dick will provide an update on all that's been accomplished in this landmark year for our firm and also give you a sense of where our focus will be in 2018.

After our prepared remarks, we'll be happy to take your questions. Now, before we jump into the quarter, let me give you a brief summary of 2017. Firstly, this has been a monumental year for us as we've completed our merger and laid down the foundation for our future growth. Our investment performance remains strong and has improved across all time periods compared to this time last year. This improvement is a testament to the truly world class investment professionals that we have here at Janus Henderson.

Looking at net flows for the year, clearly they were disappointing. This result was driven by a significant concentration of outflows in the first quarter and included the impact from some losses attributable to the merger. Assets under management in 2017 increased 16% to US$371 billion on the strength of global markets and FX. Financial results improved year-over-year and displayed the enhanced operating leverage we anticipated would be created when we made the combination of Janus and Henderson.

Later in the presentation, Dick will discuss in more detail the firm's accomplishments in 2017. But for now, if we shift to the fourth quarter results. The story of the quarter has three parts. One, continued strong investment performance. Two, asset growth driven by a robust market, partially offset by net outflows. And finally, a strong set of financial results that reflect solid top line growth, ongoing financial discipline and the benefits from the merger all translating into increasing profitability.

Looking at investment performance, as at the end of December, 66% of firm wide assets were beating their respective benchmarks over the three year time period. While this is a decline from the prior quarter, it is a strong result and I am very encouraged by the fact that a significant majority of our assets under management are outperforming their respective benchmarks over the one, three and five year time periods. With respect to net flows, total group net flows reverted back to negative territory for the quarter after posting inflows in the previous quarter. Despite these outflows, total assets under management as at year-end increased 3% versus the prior quarter.

On the financials, we saw the combination of growth in assets and increasing performance fees and good expense management lead to strong results. Fourth quarter adjusted earnings per share of US$0.73 was up 30% compared to the prior quarter. Finally, consistent with prior quarters, the board declared a US$0.32 per share dividend in the fourth quarter.

Turning now to slide 4 and a look at our investment performance in more detail. Performance in our equity capability improved year-over-year on a one and three year basis, with the most notable change in the one year numbers. At the end of December, 64% of equity assets were outperforming benchmarks over the one year time period compared to 30% at the end of last year. The improvement was driven by the excellent work in the investment team and was further supported by our bias toward growth stocks in the majority of our larger strategies. This bias benefitted from growth outperforming value in 2017 as the Russell 2000 Growth Index returned 22% in the year compared to 8% for the Russell 2000 Value Index.

Looking now at Intech, in 2017 we saw marked improvement in its one year result compared to the same time last year. After a very difficult second half of 2016, which resulted in only 7% of assets beating their respective benchmarks to the year ending 2016, the Quantitative Equity strategies of Intech responded and in 2017 finished the year with 90% of assets being benchmarks on a one year basis.

That's a great result for the year. That said, as at year-end, the percentage of assets beating benchmark over the three year time period dropped to 27% from 61% last quarter. This change was a result of several of the largest strategies underperforming during the quarter driven by the rotation in markets as a result of the tax reforms announced in the US in December.

Lastly, as you can see, performance remains very strong across our Fixed Income, Multi-asset and Alternatives capabilities. Overall, our investment performance continues to be strong, which is providing a solid foundation for future growth. This is particularly significant given all of the noise and change as a result of the merger and demonstrates the resilience of our team and shows that the robust investment processes we have in place have been unaffected.

Now, if we move onto client flow. Fourth quarter net outflows were US$2.9 billion compared to inflows of US$700 million in the prior quarter. The quarter-over-quarter change was a result of a 30% increase in gross redemptions, driven primarily by redemptions from Institutional clients in the Equity, Quantitative Equity and Alternative capabilities. Dick will discuss the trends we saw on a full year basis later in the presentation. But for now, let's look at our fourth quarter flows by capability that is shown on Slide 6.

Our equity business switched to net outflows this quarter driven by the absence of large US$1.8 billion mandate that funded in the third quarter, as well as higher redemptions in the Asia-Pacific and EMEA regions. Our fixed income business was positive again at US$200 million as we saw positive flows across our Asia-Pacific business as well as in EMEA Institutional clients. Quantitative Equities saw net outflows of US$1.6 billion compared to US$500 million net outflow in the prior quarter. This increase in outflows reflects the lumpy nature of this business, which is predominantly Institutional.

Multi-asset net outflows were US$200 million, broadly in line with the prior quarter. Finally, Alternatives net outflows were US$600 million. This decline from inflows in the prior quarter was due to outflows from our absolute return bond strategy as a result of performance and a portfolio manager departure that was announced in September.

While the near term flows did not fully reflect the strength we're seeing across the business, I am encouraged by the feedback and interest we are receiving from clients and remain optimistic about the opportunities I see across the globe. Before I hand it over to Roger, I would like to emphasise just a few points. First, investment performance remains strong across capabilities and this is laying a solid foundation for future growth. At Janus Henderson, we are blessed with a broad and deep array of investment talent and I'm pleased with the way our global investment teams have come together following the merger.

Secondly, engagement with our global clients continues to grow and strengthen and we've been grateful for the support they have given us through this year of transition. And finally, 2017 required an enormous amount of effort from our employees. As the merger moves farther into the rear view mirror, in 2018 the majority of our employees will be shifting focus from integration towards initiatives that will drive future growth. This represents a great step forward for our business.

With that, let me turn it over to our CFO, Roger Thompson, to review our financial results.

Roger Thompson: Thanks Andrew. The financial results begin on slide 8. Before I get started, I want to give a quick reminder as to how we'll discuss the financial results. The results are shown in US GAAP, pro forma US GAAP and adjusted non-GAAP. We believe adjusted non-GAAP is the best way to look at the ongoing operations of Janus Henderson and that's how we'll speak about the business today.

Slide 9 looks at the financial highlights. The great news is that in looking at this page, whether quarter-over-quarter or year-over-year, you'll notice it's all green, reflecting an improvement in the metrics presented across the board. Overall, fourth quarter results are strong reflecting positive markets and performance fees, in addition to some favourable one-off accounting adjustments relating to compensation, which I'll touch on in a bit. Average AUM in the fourth quarter increased 4% over the third quarter, primarily driven by positive markets and beneficial currency movements. The increase in average assets, coupled with strong performance fees resulted in an 11% increase in total adjusted revenues in the fourth quarter and for the full year 2017.

Adjusted operating income in the fourth quarter of US$220 million was up 31% over the prior quarter, primarily as a result of higher average assets, the seasonality of performance fees and a benefit in the LTI line related to an adjustment to the purchase price accounting from the merger.

Fourth quarter adjusted operating margin was 43.6% compared to 37% in the prior quarter. For the full year, adjusted operating margin was 39.6% compared to 33.9% in 2016 pro forma. These results demonstrate the enhanced economies of scale provided by the merger.

Lastly, adjusted diluted EPS was US$0.73 in the fourth quarter compared to US$0.56 in the prior quarter. Before I move on, one comment on the fourth quarter US GAAP EPS of US$2.32 per share. I wanted to clarify that this includes a US$1.67 per share benefit from the US$341 million adjustment in our deferred tax liability derived primarily from the reduction in US taxes from the US tax reform legislation passed during the fourth quarter.

On Slide 10, I'll speak to the 11% increase in quarterly revenue change in a little more detail. Management fees increased 3% from the prior quarter, roughly in line with the increase we saw to average AUM. Net management fee margin for the fourth quarter was 44.9 basis points compared to 45.2 basis points in Q3. As we discussed last quarter, AUM subject to performance fees in the fourth quarter is significantly higher than the third quarter. Therefore, this quarter you saw a material increase in performance fees to US$34 million compared to a negative US$2 million in the third quarter. And we're also up considerably from the US$3 million in the same period last year on a pro forma basis.

The fourth quarter performance fees were driven by strong performance in our Quantitative Equity, UK absolute return and global technology strategies as well as better year-over-year results from our US mutual fund performance fees.

Moving onto the operating expenses on Slide 11. On a US GAAP basis, the fourth quarter had integration adjustments as well as some non-deal costs. There were approximately US$20 million of integration costs incurred in the quarter. The main items impacting this number were severance paid to employees and the write off of legacy SAP platforms as we implemented our new integrated general ledger.

So far we've recognised approximately US$203 million of the US$250 million deal and integration costs that we expect to incur. Non-deal costs adjusted out of operating expenses in the quarter were roughly US$4 million and mostly consisted of intangible amortisation of the investment management contracts, offset by a release to contingent consideration.

Adjusted operating expenses in the fourth quarter were US$285 million compared to the third quarter of US$286 million, a slight decrease quarter-over-quarter. Fourth quarter adjusted operating expense includes quite a bit of noise so I want to spend a few minutes walking through some of the more significant items impacting the results. Adjusted employee compensation, which includes fixed and variable staff costs, was up 1% compared to the prior quarter. Given the high performance fees and consequently the improvement in profits, you might expect higher compensation than what we've recognised so let me provide a bit more color here on why this isn't the case.

First, as we do every year, we finalised our bonus pool and the split of cash versus non-cash compensation. This led to a reduction in fourth quarter accounting compensation of roughly US$9 million as a result of adjustments to accruals. Second, third quarter compensation included approximately US$4 million of one-off additional expense associated with discontinuing legacy

Henderson compensation schemes. And lastly, the fourth quarter includes the realisation of around US$18 million of cost synergies from the merger, a slight increase over the prior quarter.

Adjusted long-term incentive compensation was down 28% compared to the third quarter, primarily due to a one-off adjustment of US$13 million related to the purchase price accounting. With these adjustments to both employee compensation and LTI during the quarter, our fourth quarter comp to revenue ratio was 39.1%, which is an abnormally low percentage and not indicative of what we would expect in 2018.

Turning to non-comp operating expense, collectively, these saw an increase of 14% quarter-over-quarter. The main drivers were marketing and G&A. Marketing expense increased US$3 million over the third quarter, primarily due to seasonality and our focus on further awareness building of the Janus Henderson brand.

G&A was up US$6.5 million, or 13% as the firm is returning to a more business as usual spend post-merger. Non-comp expenses in total for the full year 2017 increased 7.5% compared to an annualised first half, slightly higher than our previous guidance of 5%. This is primarily due to higher G&A. Turning to slide 12 and a look at our profitability trends.

We continue to generate strong operating profits and EPS. The fourth quarter adjusted operating income of US$220 million is a significant increase over the last quarter and the prior years fourth quarter driven by performance fees, favorable accounting adjustments made to compensation and LTI that I've just talked about and the realisation of synergies.

As we begin 2018, I wanted to provide some initial insight into what we anticipate in our expense base going forward. For compensation as a result of the cost synergies realised as part of the merger, we're expecting an adjusted comp ratio in the low 40's for 2018 compared to 44% in 2017.Fore non-comp expenses, our current expectation for 2018 is a 12% to 14% increase in these lines compared to 2017. This increase is driven by investments we're making in the business at a full year of normalised spending. Additionally in 2018, we'll begin taking the cost of the investment research onto our P&L as a result of MiFID II

Our current budget for this added expense in 2018 is US$19 million. However, as we've noted previously, the cost of research is still evolving. With these points in mind it's important to note that the level of profitability in the fourth quarter is exceptional. Looking forward for full year 2017 adjusted operating margin, just less than 40%, is a good proxy of where we think 2018 will be. With quarterly fluctuations driven by the direction of markets, business results and particularly the impact from performance fees.

Finally, based on US tax reform, we believe our annual statutory rate will be in the range of 21% to 23% in 2018. The range reflects quarter to quarter fluctuations for the result of the geographic mix of profits. The actual effective tax rate will also be impacted by the various book to tax differences that occur each quarter.

Finally, a look at the balance sheet. At the end of the December, Janus Henderson had total cash in investment securities of US$1.5 billion. And we're in a strong net cash position. During the quarter we received early conversion notices from holders of our 2018 convertible notes which was settled in cash for US$42 million. These early conversions reduced our total debt by 7%. Additionally, since the end of the quarter, we've received an additional US$48 million of notices bringing the outstanding balance on these notes down to less than US$10 million.

The Board approved a quarterly dividend of US$0.32 per share payable on the 2nd March to shareholders on records as at the close of business on 16th February. With this dividend, the full year dividend payout ratio was 48% based on pro forma dividend of US$1.20 and adjusted pro forma diluted EPS of US$2.48.

Lastly, as we think about our capital philosophy going forward, the liquidity position of the firm is strong. We do have some meaningful near-term needs for cash in the form of annual bonuses which will be paid at the end of this month. As we get through this period and begin generating excess cash, the Board will evaluate the uses of cash and balance the ongoing investments that the business requires with external opportunities and of course returning excess capital to shareholders. With that I'll turn it over to Dick for review of our 2017 accomplishments and our 2018 priorities.

Dick Weil: Thank you Roger. Thanks everyone for joining us today. Turning to slide 15, 2017 was a landmark year. I'm amazed when reflecting back on all that was accomplished and equally excited when I think about the opportunities that those accomplishments will create going forward. When we first announced our merger, we said that the benefits of the combination were as follows, first we highlighted that it would expand our distribution enabling us to better serve our clients around the world.

Second, we said it would strengthen our world class global investment teams, positioning us to deliver more consistent results across a broader spectrum of products for our clients. Third, we said it would improve our financial strength and flexibility allowing us to withstand any shocks, to appropriately invest in our business throughout market cycles and to deliver stronger returns to our shareholders.

In presenting these three things as the main strengths of our merger, we also noted that success would hinge, on a key fourth element that success would hinge on our ability to build a common culture across our entire firm that attracts and retains the most talented professionals in our industry. Today, nearly a year and a half later, I am more convinced of the value of this merger than I was when we started down the road. I'm confident we can achieve the four key elements I outlined above creating value for our clients, our shareholders and our employees. Looking at the accomplishments of 2017, first I'd like to highlight the investment performance. I'm extremely encouraged with the performance of our investment teams how they have delivered through this merger and integration process and avoided becoming either disrupted or distracted. You can see their results, our teams have performed very well. It is particularly pleasing to see the significant improvement in Intech's results after the toughest second half of 2016, the toughest six months actually in their firm history, they delivered substantially better results in 2017.

Second, as we seek to expand our distribution efforts and better serve our clients, I want to call out some highlights around our global client relationships. First, the response that we've seen from our clients around the world since the merger has been extremely supportive. Going through a merger is never easy especially for our clients and we couldn't be more grateful for how they understood the rational of this merger and stood by us. This outcome could not have been achieved without the stellar work from ladies and gentlemen on the distribution team so thank you all for your hard work on behalf of our clients.

Second, despite the US$10 billion of outflows during the year, which included outflows of nearly US$8 billion from Intech and several billion dollars of merger related outflows, we are seeing signs of strength in many areas of our business. In the US intermediary channel, we are gaining share in the equity market. During 2017 our equity mutual fund business outpaced the industry by 180 basis points which was a great result.

In Institutional space, we saw good global traction across a diverse breadth of strategies, the ten largest net inflows for the year were sourced from nine different strategies. With better performance and the merger further in our rear view mirror, opportunities for flow improvement in 2018 are meaningful. Third, let me turn to the subject of revenue synergies. Dai-ichi continues to be a first class partner. They completed the US$500 million incremental investment into our products and has been in the market purchasing shares of our company. For the second quarter in a row, global equity income was our top selling US mutual fund and we are seeing increasing opportunities with clients of their respective legacy firms investing in multiple strategies.

Finally, consultants and Institutional clients across the globe are taking our firm off watch status which is very encouraging. Turning to financial discipline, in 2017 our financial results were very strong. They provide good evidence of the improved economies of scale our merger represents. Based on all of the hard work and dedication from our employees, integration is ahead of expectations and we increased our cost synergy target during the year to US$125 million from the originally stated US$110 million. The expansion of our strategic partnership with BNP is going well and it will support our global operating model going forward.

Lastly, our balance sheet and liquidity position remain very strong and the business is generating strong cash flow. All of these achievements have translated into value for our clients and for our shareholders and we have set a very strong foundation for our company going forward.

Turning to slide 16, let's look at our priorities for 2018. While these priorities are not radically different from areas we focused on in 2017, we believe they represent a progressive step towards building a leading global active asset manager. First, we will be focused on achieving organic growth by being a trusted partner for our clients delivering first class investment performance, insights and experiences. This will take time but the pieces are in place with a fully integrated global distribution team and a very strong investment team.

Additionally, as a larger and more global asset manager, we are convinced that we're in a good position to build further strategic relationships with our clients as they seek to reduce the number of asset managers they do business with.

Second, in 2018 we will leverage our enhanced distribution strengths and product breadth to deliver on revenue synergies. Our global distribution team is now approximately 600 people strong with meaningful brand and market presence in North America, in the UK, in Continental

Europe, in Japan and in Australia. We're very optimistic about the opportunities to capture flows in 2018 and the years ahead.

Third, we are well on our way to delivering the cost synergies that we promised. We will continue to execute on the integration and to realise the remaining synergies for our shareholders. Fourth, we will continue to maintain a disciplined approach to the management of cash and capital balancing the ongoing investment needs of the business with returning excess capital to our shareholders

Fifth and finally, we're particularly focused on building a common culture embodying our ethos of *Knowledge.Shared*. Turning to slide 17, I wanted to provide some insight around how we will strategically move forward as an organisation and what will drive our success. First we believe that culture drives success in everything that we do so we will continue to invest in our people and our culture.

Second, investment excellence is paramount. We must deliver returns for our clients and we will remain focused on this going forward. Third, we must operate as a client-centric organisation translating those words into actions for our clients. Fourth, we must build long-term deep rooted relationships with our clients by focusing on the client experience and partnership. And fifth, we must embrace technological innovation and efficiency to ensure our firm is prepared and well positioned as our business environment evolves.

Being successful in these elements will create value for our clients, our shareholders and our employees and they will help us build a leading global active asset manager. With that, let me turn it back to the operator for questions.

Operator: Thank you. Ladies and gentlemen, at this time we will conduct the question and answer session. In the interest of time, questions will be limited to one initial and one follow-up question.

If you would like to ask a question, please press star 1 on your phone now and you will be placed in the queue in the order received. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Once again, please press star 1 to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal for questions.

Our first question comes from Andrei Stadnik with Morgan Stanley.

Andrei Stadnik:: Good morning, can you hear me okay?

Andrew Formica: Yes, we can. Hi Andrei.

Andrei Stadnik: Congratulations on pretty solid results. The first question if I may ask, the performance within the equities franchise, particularly it seems to be within European equities. I just wanted to see if you had any extra colour because the five-year performance vs benchmark dropped from 82% in September quarter to 67% beating in this December quarter which is, you know, quite a large movement for a five year now. So just, you know, wanted to see where your thoughts were, you know, around European equities performance and any thoughts on how, you know, those strategies, you know, might have been positioned for what's unfolding in 2018 year to date.

Andrew Formica: Yes Andrei thanks for your question and you're right it's the 2017 was a solid year in terms of what we've done. And I'm pretty pleased with the progress made on the financial side. To your point around the flows in particular European equities you are right that the situation in our equity business overall we're pretty pleased with performance generally. But European equities collectively were probably a bit softer where some of our funds were more sort of middling into the second quartile, third quartile which does mean that as growth towards European Equity is - or flow towards European Equity came back we didn't capture as much as we may have liked.

We don't think there's anything structurally wrong in terms of the investment performance or the team there. It's just really the positioning of where they saw markets last year which you've seen sort of a softening in some numbers which probably means that we would have liked or hoped to have done a bit better in European equities more generally in terms of flows than we did. We still have very strong bench across those - the team there and very happy with what we've got. But we just sort of have a few things that sort of didn't deliver to where we'd like as we had done in a number of other equity parts of strategies.

Andrei Stadnik: Good. Thank you. And my second question around the, you know, the uplift with inflows from the merger all - you know, all the revenue targets you've previously spoken about, you know, up to 3% uplift in flows from the combination. I mean how would you quantify what, you know, the uplift in 2017 and then, you know, how confident are you, you know, in that, you know, earlier guidance or target of about 3% uplift in flows from the merger?

Roger Thompson: Andrei it's Roger here. You know, we always said that, you know, that the cost synergies will come pretty quickly and the revenue synergies would take longer. And I think in 2017 as we talked about before there's definitely some green shoots. We point to things like, you know, the sales of previous or as Henderson managed product in the US market. Global equity income as we talked about is the largest selling product in the US, in our US mutual fund range probably selling, you know, multiple - is selling multiples of what it was selling when we were Henderson alone. So that's just an example of what we're seeing. But yes this is a multi-year growth opportunity, so very little in 2017 as we would have expected but certainly some areas in the US and elsewhere around the world where we are, you know, still very hopeful and expecting that revenue synergy to come through.

Operator: And we will take our next question from Dan Fannon from Jeffries.

Dan Fannon: Good morning. I guess just thinking about the outlook for 2018 as you kind of look at your five segments and thinking about asset growth I guess where do you see the biggest opportunities for improvement and can you talk maybe a little bit about broadly the kind of backlog or kind of Institutional framework kind of setting up to start this year? I know historically for Janus that's mostly Intech but it's a little bit more broader on a combined entity so any color there would be helpful.

Dick Weil: Hi Dan, Dick Weil here. You know, I think when you look backwards across this past year the first thing that leaps out at you in terms of flows is 7.6 billion out at Intech. And so job one has to be to continue recovering from that horrible second half of 2016 and getting that franchise back to strength. The other thing that contributed into our net flows for the year were some small considering the overall size of the firm but still noticeable dislocations from some of the merger activity.

You're never quite sure whether it's all the merger or just partially the merger and partially other stuff but we've identified a few billion in net flows that would certainly be materially affected by some of the changes of the merger. So, you know, we take responsibility for both those pieces of course. But ex those pieces the rest of the business was, you know, flattish and probably positioning giving us confidence that there are opportunities with improvements across that range of things to get that part of the business moving meaningfully forward.

So, you know, yes we accept that we've had some negative flows in Intech that are material and painful and we need to get that moving in the right direction. We also accept there's been some dislocation around the merger which hopefully is behind us. And we're optimistic that across a range of Retail and Institutional products and locations, you know, we have good opportunities going forward. And we've seen the green shoots that Roger mentioned in Retail US and Institutional Europe and help with - from Daiichi in Japan and some great things happening in

Australia. We're optimistic across a range of Retail and Institutional markets around the world so it's hard to just focus on one.

Dan Fannon: Okay that's helpful. And I guess Andrew in your prepared remarks you mentioned higher redemptions in Asia Pacific and EMEA. Can you just cut that in more detail and is that kind of one-off stuff or is that something you think you kind of pervasive here into 2018?

Andrew Formica: Yes in both those - in the EMEA outflows I'd say they were - we had a portfolio management change in our fixed income business and that triggered, you know, outflows as they say with assets associated around that manager and that team. And I wouldn't say it was just the whole combination with the merger and those changes were the final straw on that. We wouldn't envisage any further outflows from that book of business associated with that change. It's - it was dealt with. The change itself happened in September and the outflows were all concentrated in the fourth quarter.

Similarly in the APAC region, an Institutional account which we had always expected there would - that at some point we would lose. It was a relatively large mandate but it was in a client that we knew we're looking to move towards passive from active and have been conducting a review for a while now actually. We were one of the last active managers in their lineup. And they removed that at the end of the fourth quarter which again we - whilst the timing was never known we expected at some point to come. And again with that mandate having moved there'd be no further. So both of those sort of one-off one I'd say I would characterise as a merger related one where I'd categorise as business as usual but those shouldn't have any recurrence in the going forward.

Operator: And we will take our next question from Alex Blostein with Goldman Sachs.

Alex Blostein: Thanks, good morning everybody, couple of questions around just expense outlook and margins. I guess first a bit of a, I guess clarification. But so when you guys got to non-comp expenses for the year I'm assuming the US$19 million of research costs is already embedded in that. Are there any other MiFID II kind of related expenses or whether it's compliance reporting, etc, that are kind of elevating this non-comp growth rate to more of a one-time kind of step-up or we should be thinking about this kind of low teen growth in non-comp more of a sustainable run rate given the investments you need to make in the business?

Roger Thompson: Hey Alex it's Roger. I think on the last piece in terms of the one-time costs of MiFID II then and to such treating research aside then, you know, systems are built, process are in place yet there are ongoing costs of running that. But the one-off cost of arranging that is done and we're in good shape.

The MiFID II costs I called out from a research point of view as I said in my remarks is our budgeted number. You know, as good a guess as any but the cost of research is continuing to evolve as you know. So bringing back more generally then, you know, the as we said I guess in Q3 - Q2 rather we'd expect our costs – non-comp costs to increase in the second half because we were running light as we were doing the merger. We were very low in marketing and G&A. And those costs have risen as we expected in Q3 in particular Q4 and we'd expect to see that level continue into next year.

I wasn't quite sure what you said, how you described it in the beginning but the US$19 million is on top of the 12% to 14% increase of - in 2017. But, you know, again if you look at the run rate if you project forward Q4 that's probably about, you know, the right run rate to use and then add the MiFID II cost on top of that.

Alex Blostein: Got it. That's helpful. And I guess just bigger picture when you guys think about the margins on the business as a whole, I think late last year, you know, we discussed roughly high

30s net operating margin once all the synergies are baked in. I guess what are the synergies that are still left and just given the performance of the business is the high 30s operating margin on the next basis still the right number or do you guys think that could drift higher?

Roger Thompson: Yes I mean as you said that, you know, we're at very high 30s for the full year of 2017. So as I said, you know, treat the fourth quarter with caution because there are obviously some one-offs in there. But, you know, the full year it would hit very high 30s. And as I said that's, you know, all other things big well that's what you should expect for 2018. You know, so yes very high 30s margin is a decent number and low 40s for a comp ratio.

In terms of synergies, you know, we increased the synergy number from 110 to 125 at the last quarter. We're well on track to deliver that. We've probably got around 85 million now. We talked about being at 90 by the end of the first year so a little bit more to go but that is, you know, sort of we - we know where we think that's coming from but 125's still the right number.

Andrew Formica: And Alex it's Andrew here, just another point around outlook for the op margin. But firstly we, you know, we don't know where markets will go and that'll obviously have an impact on our business. And you know, the last couple days have clearly been different to where they were in the early part of the year. But, you know, to your point about investments and the like is as we move through this year there are a number of opportunities for us to look to do things that neither firm could have done on their own as part of our strategy focus and development.

You know, 2017 was about the merger and the integration and making the key decisions. 2018 as we work toward and through this will be about looking to areas we can extend out our investments teams to extend the way we engage with our clients which some of those will require investments. We also think there are efficiencies we can gain through the use of technology and the like. And how much one can fund the other we don't know at this stage but I - it would be wrong to assume that the operating margin will drift significantly higher from here because I - you know, I've always been said on record that I think you can justify sort of mid to high 30s on the operating margins but you need to continue to reinvest in your business. So you should think that we will be looking to invest in the business as we work from the integration phase into the more investment and our forward-focus phase of the group.

Operator: We will take our next question from Rob Lee from KBW.

Rob Lee: Thanks and good morning everyone. And I apologise if maybe you had gone over this a little bit because I missed a little bit of the call but as you pivot towards, you know, focusing more on growth versus, you know, getting the combined companies together next year could you give us maybe a little more granularity on where you - which specific distribution channels and maybe with which specific, you know, strategies you think you have, you know, the most the potential to really, you know, maybe go back to inflows and accelerate, you know, sales?

Dick Weil: Hi Rob, Dick Weil. You know, I think I probably answered that as well as I can. You know, we see opportunities in the US for continuing success of this global equity income product that has previously mentioned. We've talked on earlier calls about Emerging Market Equities that has had some take up on Institutional. We have a range of things moving in other markets like Australia and Japan. We had a very successful year in European Institutional. And as we pointed out I think in the notes that isn't product centric and I think there were nine different products in the ten biggest wins on that. So that's a little hard to summarise in the way that your question requests. So, you know, we have a very broad and deep team of team of client-facing folks and we have a broad and deep set of investment strategies and its not just one thing that’s going to drive us. I would be remiss also, I should mention Global Life Sciences is another strong opportunity for us from a legacy Janus-side that we’re optimistic about on a go forward basis, but there are many different strategies and that’s part of the strength of the combination.

Rob Lee: Okay, great. And then, maybe as a follow-up. You know, understanding that, you know, you had some continued cash needs in the short term, but as you look ahead to ‘18 and particularly since you will benefit from a lower US Tax rate as indicated by your tax guidance. At a minimum, is it reasonable to think as we get into Calendar 2018 that your dividend at least kind of gets adjusted to reflect your – to start payout ratio and the benefit of the lower taxes?

Roger Thompson: The short answer to that Rob, is yes. I mean we will – we’ve, kept with the same dividend through the quarters of this year. The Board will obviously look at that. We’ll set a dividend for the first quarter that, given the earnings, we’re looking at the moment, you could expect to be higher.

Operator: Our next question comes from Ken Worthington with JP Morgan.

Ken Worthington: Good morning. Thank you for taking my question. Can you talk about Janus’s presence in volatility-based products? You run Velocity Shares, I think XIV and others. Do a number of these funds shut down as a result of the spike in VIX? Were these making a lot of money for Janus? And then, I think you guys, when you bought Velocity Shares were really looking to kind of maybe pivot the model away from the double and triple-levered ETF and focus more on this traditional smart beta and ETF products. So, does what’s happening in VIX right now maybe allow that transition to more fully take place? Thanks.

Dick Weil: Hi. It’s Dick Weil. Let’s see, what to say against that? I think the, you know, the XIV product has gotten a fair amount of attention today and last night is a product which is a note offered by Credit Swiss and they’re the ones probably who have the most direct information about what’s happening there. But it looks to me like it is performing as advertised. When ViX goes up as extraordinarily as it did overnight and yesterday, I think a short VIX strategy could be expected to have a sort of change in value that it had.

So, from what I can see, you know, the volatility products offered are performing as advertised. And that's obviously very important to us and we'll keep a close eye on that. In terms of Velocity Shares more generally, you know, when we bought them, we paid primarily for an exchange traded note business and we were seeking to capture the possibility that we could move also into ETFs. Most significantly, we've managed to launch a short-term bond ETF in the US with the help of our friends from Velocity Shares. Vanilla, v-n-l-a I believe is the symbol and that one has done well for us and is growing and is our biggest success to date in ETFs.

But I wouldn't say that the current market volatility or the pattern in ETNs has much to do. Those are two separate business lines run by our friends at Velocity Shares and we think there's a place for both of them to be successful. One for more professional investment tools for not your buy and hold investors primarily, and one more traditional product like VNLA.

Roger Thompson: And Ken, it's Roger on the – your question around the manager that the license fees on these accounts are in the other revenue line and would represent single digits for this product.

Ken Worthington: Great. And then just on Intech performance. Obviously great this year, but kind of a rough 4Q. Has the great performance in 2017 changed the narrative at all with the consultants? And what is the outlook here given where the performance of the franchise stands in terms of cross-selling Intech into Europe? Thanks.

Andrew Formica: It's Andrew here. Ken, I'll have to pick up that. I think Intech, of the Intech wobbles in 2016 in performance terms sort of also coincided with a large part of their Institutional constituents which were in US equities. Sort of debating at a plan level of whether they go or towards passive. So, they had the headwinds of the active/passive debate coupled with poor performance.

So, what you saw in 2017 was a significant improvement in performance. You remove one of those. The headwinds of the active passive debate particularly around US equities particularly by US plan sponsors continues to be there and that I think will be a challenge for anyone in US equity Institutional space. Though I think performance in '17 is helping the arguments around value of active versus the cost of looking at it purely on a cost basis.

I think your point on cross-selling and opportunity, you know, at the time of the merger, or the merger announcement, Intech was seen as one of the real positives from the historical Henderson distribution teams because of what it offered and its approach and a lot of the client discussions that we'd had. Its poor performance has clearly put out a damper on immediate uplift in that going straight into the merger itself and the performance improvement in '17 has enabled us to sort of start spending more time talking to our clients and that in Europe and also in the Asia-Pacific region.

So, I do see the Intech story being supported by the non-US distribution reach that comes through the Henderson side. And I think that will be – go partly towards the way of Dick mentioning sort of addressing the decline that we saw at Intech close last year as one of our significant priorities. I think that could be a good point of it.

The other area is product extension. Intech through the period of 2017 launched a number of long short strategies. So, taking their sort of strategy and approach and applying it in a sort of market neutral absolute return priority or focus through product design and those products have performed very well. Not surprisingly given the Intech engine delivered Solid Alpha. That comes through in those numbers as well.

So, that very early days of those products, but it's very encouraging first year of performance with them. And what's notable about that area is it doesn't have the headwinds of active / passive and it also has significantly higher fees and what Intech has previously earned on its traditional long only area. So, I think both of those trends are encouraging towards the longest-term story for Intech with the non-US distribution reach. Probably the closest opportunity for us to address flows there. But I think the product extension is also of equal value. Though it may take another year or so just making sure the performances we've seen in 2017 continues to drive strong growth there.

Operator: Our next question comes from Simon Fitzgerald with Evans and Partners.

Simon Fitzgerald: Good morning. My first question just relates to MiFID II in terms of your thoughts about potential adoption in the US maybe in the longer term. And just how Janus Henderson may be operating its business across its geographies at the moment with regards to MiFID II, noting that initially you spoke about that being exposed to European and UK mandates.

Andrew Formica: Yeah. Thanks, Simon. Look, in terms of the changes in research and the charges that Roger mentioned put into the budget is – at the moment, first thing I'll say is that it is only applying to our European client base – our MiFID II client base. And the number we've put in is really our best estimate at this stage, so I would say that pricing is still fluid. And the adoption that we take in terms of services as unbundling really takes could see that alter so we're trying to be realistic as well as prudent in that.

To the point of whether there's a risk of this going to the US. I think certainly in the 4th Quarter, late 3rd Quarter, there was probably more talk about it extending to a global franchise. I think since global framework. Since the SEC qualified and gave relief for MiFID II payments to be made for research, they did qualify that to be limited to MiFID based firms and therefore did not extend that exemption to all payments. Which makes it hard to do it globally, certainly to US-based research for US-based clients.

And the client push that you saw significantly in Europe has not at this stage manifested itself in the US. So, if I'm sitting here today, I don't see a huge push that is likely to be extended on a global basis today. I think at some point, you know, it'd be unrealistic not to think that a global standard will develop say, five years from now. But the period between now and five years is unknown and it doesn't feel like any immediate pressure sitting here today other than what we have announced around the MiFID side of our business. I hope that helps.

Simon Fitzgerald: Yes. No. That's helpful.

Second question just relates to some of the market movements that we're seeing in the last few days. Could you make any comments just in terms of how your Institutional client base might be feeling and if this were to sort of continue on for let's say another month or so, could this put your Institutional pipeline at risk and potentially put some mandates on hold?

Andrew Formica: Simon, I think is, you know, obviously what we've seen is a return of volatility of the markets. Which some people may say is unhelpful. I actually think it's probably being relatively helpful. 2017 was just too benign. It didn't feel realistic. There were too much crowded people in our position. I think [Dick's] on record of saying the most crowded trade was short volatility and you know, it did see people got very complacent.

So, I don't think this is anything to worry about. And even if we do see further falls, I'm not in the business of being able to predict day-by-day or week-by-week sort of movement indices. But I'm not worried about what we're seeing. I don't think the reasons given out there or any data that's been published has sort of could be seen as a trigger for this are anything to worry about. We've had higher strong global growth leading to a reassessment of interest rates rises. Particularly in the US and that's bad for equities.

Well, actually, in the longer term, global growth is good for equities with earnings and the numbers are seeing a generally quite supportive of equity valuations. And while you'll see some shake out in terms of valuations and position, I don't think that it will be a long-term impact.

From a client perspective, you know, I think again, this is where the active side of the debate is quite helpful. Clients are ringing us to just talk to us about what our thoughts are. And it's an opportunity for us to engage with our clients. Talk to them about our investment ideas and pieces. How we're seeing markets and they really appreciate that interaction. I think it's an often misunderstood and misvalued approach to active management. Also, in times of distress, it's incredibly valuable to our clients both Institutional and Retail. And we actually spend a lot of our time here at Janus Henderson utilising that by engaging with our clients through that.

So, I don't – while it may cause some clients to delay and think about the timing of investment and mandates, in other cases we'll see them accelerate, as they see opportunities to use liquidity in markets to position their portfolios where they want it to go. But I don't' think we'll have any – certainly nothing in such a short window that we've seen in this market turmoil would give me any impact of having a significant shift in our outlook or thoughts of how markets are.

Obviously, if it keeps falling from here, you may have an impact on that. Again, I'm pretty confident that where our business is being positioned and the merger has given us quite a lot of strength in investment talent and a very strong balance sheet that we can weather. If it is more than just a small storm.

Operator: We'll take our next question from Chris Harris with Wells Fargo.

Chris Harris: Thanks. Hey guys.

I want to come back for the Cost Guide for 2018 for a minute. Just curious if you guys could talk to us a little bit about how much of that increase in spending is growth versus more maintenance regulatory requirements. And then, with respect to the growth spending, can you elaborate on what you guys are investing in a little bit? Thank you.

Roger Thompson: So, I think a lot of it, as I said, Chris, is us returning to the full level of spend in areas. But we certainly are making investments in the business as we move out of the pure integration phase into leveraging the deal. But yeah, a relatively small amount, but certainly some investments in 2018.

So, the second half of your question?

Chris Harris: Yes. I was just hoping maybe you can elaborate on what those investments are. Specifically, for growth…

Roger Thompson: I mean, they're in all sorts of areas, but you know, we're looking in areas, you know, how do we look at – how do we particularly look at technology and use technology. But, you know, as we look to the ongoing view of the business, I think we'll talk to you more in the early part of the year as to our ongoing strategy and probably talk a little bit more about it then.

Chris Harris: Okay, appreciate it.

Operator: We'll take our next question from Brian Bedell with Deutsche Bank.

Brian Bedell: Great, thanks very much. Good morning folks. Maybe just one more on the non-comp expense, just have this right. I think the base that we're using for 2017, correct with if I'm wrong, it's just under US$300 million on an adjusted basis. Is that correct? And then growing 12% to 14% from that and then adding the US$19 million of the research costs?

Roger Thompson: That's about right. For the full year it's slightly over US$300, I think we're US$307 for this year and then, yes, 12% to 14% on top of that plus US$19 million, yes.

Brian Bedell: And then as we move into 2019 you'll - you've got another US$40 million of expense synergies to go just doing the math of the US$125m minus the US$85m. So, as we move into 2019, should we think about that US$40 million being achieved and then obviously, you know, growing the expense base from there and then maybe just how we should think about that sort of long-term sort of secular growth of the expense base given the investment you are making in the business?

Roger Thompson: I think as Andrew said, you know, we'll look to continue to invest in the business so the - you should assume it returns to a sort of normalised level. You can see we've actually taken quite a lot out of the cost base over the last year. Non-comp will increase next year as I talked about partially because of the regulatory change. Again, that's part of the reason, you know - those regulatory changes are part of the reasons why we have the strength of a business, double the size it was before. We've returned to a normal, a more normal, level but we'll continue to manage the business appropriately and invest both where it needs it and where the margins allow it.

Operator: Our next question comes from Nigel Pittaway with Citi.

Nigel Pittaway: Hi, just one more question, sorry, on the non-comp costs. Can we just clarify the shift in cost for the BNP contract? Is that included in the 12% to 14% plus US$19m?

Roger Thompson: You are quite right Nigel, there is a small element of that that's in there, so yes, that is included in that so as we complete the BNP transaction in the US a number of staff will move from being on our payroll and therefore comp to non-comp and that is included in that number, yes.

Nigel Pittaway: Okay, fine and then I know tax can be a bit volatile quarter to quarter but I think it was up to about 32.3% in the quarter on a sort of adjusted basis, is there any particular reason why it was quite so high?

Roger Thompson: Yes, there's a couple of elements in there Nigel. One is the PPA adjustment that we talked about and we called out of about US$13 million. Obviously that's all in the US so it's taxed at the US rate and there was a couple of other small one-offs. So, the rate is slightly higher this quarter but largely due to one-offs.

Operator: We'll take our next question from Patrick Davitt with Autonomous Research.

Patrick Davitt: Hey, good morning, thank you. There's been a lot of chatter about potential pressures in the UK pension market be it from the regulatory side or even just some of the consolidation that' going on there. Could you remind us how much exposure you have there, if any and your thoughts around the potential fee or flow headwinds that could be coming through from the CMA review and other things?

Andrew Formica: I haven't got the exact details on the size of that business in the UK Institutional pension businesses is a reasonably sized book of business. In terms of some of the things you talk about, there's been a couple of reforms over here around - certainly around the local authorities of whether they sort of merge smaller schemes there into larger schemes. You've also seen the trend toward buyouts of defined benefit schemes and the like.

Given our experience and relationship with those, we see ourselves as continuing to service that market and having very strong products, certainly very strong links in those markets. Of course as you get consolidation in large amount mandate sizes you do see the prices come down, that pricing pressure, the UK market is a reasonably competitive market, it's probably not the most competitive market in the world but it's certainly not the best market in terms of fees either so I think it's pretty competitively priced at the moment but you should expect as we always would in the Institutional space, that volumes are offset by fees.

So I think we're probably well positioned in terms of our contacts for a consolidation or a conglomeration of mandates as they sort of move into some of these things, but it could be at modestly lower margins than what we're getting at the moment. But there's nothing that would cause concern for significant opportunities than what we've been seeing for that market. That market has been a good market for us and the number of new capabilities coming over from the old Janus side should be quite attractive in that marketplace including, as I mentioned earlier, the Intech proposition I think would satisfy particularly if they're very fee-conscious given the price points that Intech has relative to some of our capped strategies, which have more capacity constraints with limited opportunity in those.

Patrick Davitt: Okay, helpful and then a quick follow-up on the velocity shares question. Could you clarify if that single digit answer you gave was basis points or millions and should we expect the flows and AUM from the CS branded product to flow through your numbers in the first quarter?

Roger Thompson: On the AUM we don’t include the ETN flows in our AUM or flow numbers. We include the ETF's but not the ETN's so that wouldn’t be in there. And yes, I was talking about single digits and near the lower end of that number than the higher end of that number in millions. So I was referring to the fact that it's a relatively small number on a large revenue number.

Dick Weil: Yes, in basis points it's competitive with management fees on Retail products.

Operator: And we will take our final question from Michael Carrier with Bank of America Merrill Lynch.

Michael Carrier: Thanks guys. Just a question on distribution. Since the merger and with the integration, I just wanted to get a sense on whether it's on the Retail platforms, how many products that you guys have on, what's the trend been there and then same thing on the Institutional side in terms of consultants, you know, how many are recommending new products, which ones - are you still in the penalty box versus getting the green light?

Andrew Formica: Yes, thanks Michael. Look, I think in terms - I don’t have the numbers in front of me in terms of the number of platforms, what I would say is we've had good success of broadening through the various Retail platform operators we have whether it's in the US or outside of the rest of the world bringing the legacy products from the other firms onto those. We're actually seeing quite good pickup in that. Dick mentioned the, you know, the old Henderson Global Equity Income product being the best selling in the Janus Mutual Fund range now after being adopted in sort of June last year, seeing similar success with things like the global life sciences being able to get through the European distribution and the like.

So we are definitely seeing the ability to bring products through to platforms and use our selling agreements and broaden our offering to clients. And in some cases we're seeing some good early success and I think others will see that build. To the Institutional point, pretty much in 2017 we were generally in the penalty box with consultants. They wanted to see the merger go, they wanted to see how it would all settle down and as we move towards the end of the fourth quarter and into this quarter we’re having a lot more discussions with consultants, to look to remove any sort of flags or holds on those.

So, you know, I'm not saying we're through all of those but we're making some pretty good progress and people are very encouraged about the stability in the business and what they've seen and what we've been able to achieve in such a short space of time and I guess it's helpful when a number of other mergers in our industry have gone on over a similar period or over the last couple of years and they've got some benchmarks to judge how well we're doing relative to that and I think we stand in pretty good ground in terms of the decisions we've made, the progress we've made and that's been very helpful with the consultant community.

So I think from an Institutional point of view, the ability to start talking about our new capabilities is definitely there from now and it really has only been the last few months we've probably been able to get through that merger hold period that you would have had.

Michael Carrier: Okay and Roger, just one quick clarification on the guidance that you gave, everything make sense in terms of the comp and the non-comp. Just on the remaining synergies, is any of that in the guidance for 2018 or from a timing standpoint is it going to be more weighted towards 2019? Just an update on when you expect to realise those and the numbers.

Roger Thompson: No, the majority is weighted towards 2018. There are some projects which obviously will run out a little bit longer but I guess the next phase for you to look for would be the completion of the BNP outsourcing which the big part of that is on track for an end of March closing. So that's probably the next piece to look for but as I said, we're on a good track, the vast majority of the remainder will happen in 2018 with a little bit left to go in 2019.

Operator: And ladies and gentlemen, that does conclude today's Q&A session. I would like to turn the conference back over to Andrew Formica for closing remarks.

Andrew Formica: Thank you operator and also thank you everyone for joining the call today. Obviously I just want to provide some concluding remarks and just really pick up on some of the strong points that both Roger and Dick mentioned in their sections. You know, when you look at the business, firstly the movement across the equity markets over the last several days, it's not insignificant but I do think it also reflects the fact that the correction in our view was overdue, we couldn't predict when it would come. We're not concerned about what's come. We think if you look from our perspective the global business fundamentals remain solid, global macro conditions continue to appear supportive so there's certainly not anything we see that's worrying or concerning us at this stage.

I think additionally I'd add that as an active manager that market volatility actually provides an opportunity for our investment teams to shine. This is when - you know, the investment discipline, the active managers sort of have in place, the collaboration and the idea generation that's sort of being formed by the new investment teams can really set ourselves apart as well as I mentioned the ability for us to engage with our clients which is a way to sort of deepen those relationships. So all in all, we're not worried about what we're seeing in the markets at this stage.

Also I'd say that as we enter 2018 we do have strong investment performance across all capabilities, that does position us well for growth as our distribution teams bed down and begin a much more proactive approach to engaging with our clients as the merger becomes much more in the rear view mirror for them. So I think that will be important. Despite whatever you're doing, a merger will be distracting - you have to sit there and develop policies and procedures. With those now being done, it enables us to really look forward.

I think I'd also highlight that the client support over the last year has been better than we could have anticipated. There's been very strong client engagement by our distribution team and whilst that hasn't been reflected in the flows in 2017, I expect to see us making in roads into that in 2018 and I think there's some significant opportunities ahead of us.

And then finally, you know, you heard, the integration effort continued to be ahead of expectations. And the hardest thing of an integration of this size is actually getting the key policies and principals and the organisational structure right, the IT systems to adopt the operating model and we've made all of those key decisions whilst the implementation of those stretch out a number of years. The decision making is actually now behind us and enables us to look forward and move forward on that. So I think all in all, putting that together, it sort of shows that the business is in pretty good shape and it was really a pretty monumental year for Janus Henderson and I think we couldn't have asked to be in a better place today for what we have been able to achieve over that period.

If there are any follow-up questions, obviously John and the team are here to help answer your questions, otherwise we look forward to speaking to you with our first quarter results in early May. Thanks a lot.

Operator: Once again ladies and gentlemen, that does conclude today's conference call. Thank you for attending.