Janus Henderson
GROUP PLC

Janus Henderson Group plc – 2Q18 results conference call
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Operator: Good day. My name is Corrina. And I will be your conference facilitator today. Thank you for standing by and welcome to the Janus Henderson Second Quarter 2018 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 projected in the forward-looking statements due to a number of factors, including, but not limited to, those described in the forward-looking statements and risk factors section of the company's most recent form 10-K and other more recent filings made with the SEC. Janus Henderson assumes no obligation to update any forward-looking statements made during the call.

Thank you. Now it is my pleasure to introduce Dick Weil, Chief Executive Officer of Janus Henderson. Mr. Weil, you may begin your conference.

Dick Weil: Thank you, Operator. Welcome, everyone to the Second Quarter 2018 Earning call for Janus Henderson Group. I'm joined by Roger Thompson, who will be taking you through the results for the quarter today. All of you will have seen the announcement we have made about our leadership structure going forward. And first and foremost let me say a few words about that.

I am gratified by this decision, I'm honoured and excited by the opportunity to lead such a talented group of professionals. When we did the merger, we realised some wonderful strengths available in the combination of Janus and Henderson could only be achieved if Andrew and I signed on as co-CEOs. We knew and we were transparent in telling folks at that time that the arrangement was transitional, that when circumstances allowed, we would shift to a more efficient single CEO structure.

Andrew and I have partnered as well as humanly possible. And at this point I really need to thank Andrew for his courage in putting together Janus Henderson and his excellent personal partnership for me during this past year when we’ve been co-CEOs.

Andrew led Henderson and then Janus Henderson for nearly 10 years and had more than 20 years at the firm. His leadership helped shape the firm we have today and he's critical in positioning us for our future success. His contribution has been immense and I really genuinely thank him for his support and partnership.

Before turning it over to Roger to discuss the results, I want to take a moment to highlight where I see the firm today and just a moment to discuss a little bit about my vision for the business going forward. With respect to where the firm sits today, first, since last May our focus has been on integration as we work to lay a solid foundation for future growth. And the execution of these efforts is proceeding meaningfully ahead of schedule with cost synergies exceeding the targets which were originally announced.

Despite the turnover that we have experienced, we are attracting some of the industry’s best talent across the globe and we are gathering strength in our team. Today's leadership announcement is another decision that is ahead of our projected timeline. So we are further along today than we could have hoped and we are pleased with that.

Second, turning to the flows in our business, recent results are not where we would like them to be. But we are seeing improving trends across a number of important business areas. In the US distribution channel, we're seeing improving trends among both the Retail and Institutional businesses. At Intech, following a US$10 billion outflow in 2017 the business is doing better in 2018.

Asia Pacific is posting good organic growth led by some really excellent work out of Australia and support from our incredible partner, Dai-ichi Life through their subsidiary, TAL, down in Australia.

However, in Europe, we are seeing significant underperformance in several of our largest strategies which are leading to challenging outflows. Despite the net outflows, I am optimistic about our future prospects for the business. Given our global distribution footprint, the range of product offerings, the strength of our people, the quality of our investment processes, I'm really quite excited about our future.

Finally, as Roger will discuss, the financial results are strong reflecting growing economies of scale in our business and our ongoing delivery of promised synergies. So I think that covers where we sit today. Let me briefly touch on where are we going.

When we announced the merger, we said the benefits would be the following: first we would have expanded global distribution allowing us to better serve a broader group of clients. Second, we would have a broader and deeper global investment team positioned to deliver more consistent results across a broader spectrum for our clients. Third, we would have improved financial strength allowing us to invest in our business throughout market cycles and lead to stronger long-term returns for our shareholders.

Fourth, we felt it would allow us to build a common global culture that would attract and retain the most talented professionals in the industry. Today, these tenants still ring true and we are more convinced of the potential value in our company than ever. However, potential is one thing, and we have to acknowledge and know that our job is not potential; it's to increase shareholder value by growing profitably and delivering for our clients.

I look at that as not being a particularly complicated recipe. In fact it's the delivery of the recipe which is the hard part. The recipe is you need to have the best people and the best technology in each of the following areas: in alpha generation, in risk management, in great client experience and in delivering a simple, reliable, cost effective infrastructure.

In doing all these things, we must of course retain our focus on financial discipline so that we retain your trust and confidence as our owners as we continue on our journey. These are the ingredients for success in my mind which will guide our path forward. Janus Henderson is a business with great opportunity. Our investment teams are putting up strong results, we are seeing deeper engagement with our global clients, and growing opportunities to develop new relationships.

Our financial results are strong, with growing cash flow generation and our management team is committed and determined to deliver growth. Being successful and ambitious will take time. But personally I'm very excited about the quality of our people and the opportunities ahead of us. With that let me turn it over to Roger.

Roger Thompson: Thank you, Dick. And thank you for everyone joining us today at short notice. The business results for the second quarter and for the first half of 2018, can be characterised by four points.

First, integration continues to progress ahead of scheduling underlined by today's leadership announcement. Second, investment performance remains strong. As at 30th June, 64% of firm-wide assets were beating their respective benchmarks over a three year time period. While slightly lower than the prior quarter, it was still a good result.

Third, we finished the second quarter with US$370 billion in assets under management, as market gains were offset by outflows and FX headwinds experienced during the quarter. Despite the outflows, we're seeing encouraging results from a number of areas in our business which I'll discuss further a bit later in the presentation.

Fourth, our financial performance remains strong with adjusted EPS of 74 cents and adjusted operating margins at 40% reflecting the growing economies of scale in our business and our ongoing delivery of synergies. Finally, today we announced that the Board has declared a quarterly dividend of 36 cents per share in line with the previous dividends, and we're also happy to announce that the Board has approved a stock buyback programme with an authorisation to purchase up to US$100 million of stock over the next 12 months, further demonstrating our commitment to returning capital to shareholders.

Moving to slide 3 and our investment performance. Overall, performance remains good and despite the dip in the metrics at the beginning – sorry, at the end of June, compared to the other periods presented, the majority of AUM is outperforming benchmark over the 1, 3 and 5-year periods. In looking at the capabilities, performance in the Quantitative Equity capability, which is the Intech business, experienced the biggest change from the prior period.

Intech's one-year performance of 47% of assets beating benchmark compared to 91% in the first quarter and the three-year performance of 25% of assets beating benchmark, compared to 46% in the first quarter. The drop was driven by notable underperformance in June and was disappointing given the strength of performance of Intech over the last 18 months.

Now turning to total company flows. For the quarter, net outflows were US$2.7 billion, flat compared to the first quarter. While the quarterly result was negative, we are seeing areas of strength across parts of the business which included a significant quarter over quarter improvements in the US intermediary and UK Institutional businesses and a number of diverse mandate wins in the US Institutional team across our Equity and Multi-Asset capabilities.

Additionally, we saw another strong quarter of organic growth as Dick just mentioned from Australia. Offsetting these areas of improvement, was a decline in flows in Europe and Latin America, which was driven primarily by underperformance in several of our largest European Equity strategies.

Moving to slide 5, which shows the breakdown of flows in the quarter by capability, Equity net outflows for the second quarter improved slightly to US$1.1 billion from the US$1.8 billion of net outflow in the first quarter. The improvement was a function of better flows from our Institutional clients in the US, Australia and Europe partially offset by the weakness amongst Retail clients in our European Equity strategies.

Flows into Fixed Income were negative in the quarter at US$600 million, this resulted from outflows in our US, UK and European channels partially offset by continued growth out of Australia. Quantitative Equity net outflows for the quarter were US$800 million.

Multi-Asset inflows were US$500 million in the quarter, an improvement over the prior quarter driven by good growth in the Balanced fund, which continued to put up excellent performance and is ranked first, third and sixth percentiles over the 1, 3 and 5-year periods respectively. Finally, Alternative net flows were negative US$700 million, which is an improvement over the US$1 billion in outflows in the prior quarter.

Slide 6 is our standard presentation of the US GAAP statement of income, but I'll turn straight to slide 7 for a look at a few of the financial highlights. The quarterly results are strong with not a lot of movement compared to the first quarter results. Average AUM in the second quarter decreased 2% over the first quarter driven by the outflows that we talked about and negative currency movements were partially offset by positive markets.

Total adjusted revenue for the second quarter increased 2% compared to the prior quarter as higher performance fees more than offset lower management fees. Adjusted operating income in the second quarter of US$191 million was up slightly over the first quarter primarily as a result of the higher performance fees.

Second quarter adjusted operating margin of 40.1% was flat compared to the first quarter and 41.4% a year ago. Finally, adjusted diluted EPS was 74 cents for the quarter, compared to 71 cents for the first quarter and 68 cents a year ago.

On slide 8 we've outlined the revenue drivers for the quarter. Performance fees were the biggest driver of the quarterly change in adjusted total revenue. Second quarter fees were US$14 million compared to a negative US$4 million in the first quarter and US$52 million in the same period last year.

The prior year performance fees were near record levels and we did not anticipate them to repeat given the current mix of performance. I'll talk about the year on year change in performance fees in further detail in a few moments.

Management fees decreased 2% from the first quarter roughly in line with the decrease we saw in average AUM which is partially offset by one additional day in the quarter. Net management fee margin for the second quarter was 44.7 basis points, relatively flat compared to the prior quarter and the same period a year ago which is encouraging given the fee pressure that's being seen in the industry in general.

Now, turning to slide 9 we provided some further detail on performance fees. On the left side of the page we've laid out the detail behind the year over year change in performance fees so that you can better understand the ranges we earned fees in.

While there was an increase in performance fees over the first quarter, the US$14 million in performance fees realised in the second quarter of 2018 were significantly lower than the US$52 million recognised in the same period a year ago. As you can see highlighted in the graph, the eligible AUM that had an opportunity to earn performance fees was fairly similar between the two periods so the change was a function of weaker investment performance in a couple of areas.

Breaking down the pieces with significant changes, performance fees for the SICAVs in the second quarter were US$4 million compared to US$30 million a year ago. This decline was the result of two primary factors. First, weaker performance in the European funds, which pay annual performance fees in June, and second, weaker but still positive performance in the UK absolute return funds which pays quarterly performance fees.

Next, performance fees on the OEICs and Unit Trusts for the second quarter were US$4 million compared to US$14 million a year ago. The decrease here again was the result of weaker but still positive performance in UK absolute return.

On the right side of this page we've updated a graph that we provided last year which has the quarterly timing of the non-US mutual fund AUM subject to performance fees or really the opportunity we have to earn performance fees during each quarter. You can see in the graph that in the second and fourth quarters we'd anticipate the highest quarterly performance fees given the significant AUM which crystallises performance fees – performance periods – during those respective quarters.

While we can't predict future performance fees, because they're performance-dependent, the takeaway for you from this slide is that there will be fluctuations in fees on a quarter on quarter basis but the same quarters on a year on year basis have a similar performance fee opportunity.

Moving to operating expenses on slide 10, the second quarter has adjustment associated with non-deal costs as well as integration. There was approximately US$8 million of integration costs incurred in the quarter. So far we’ve recognised approximately US$216 million of the total 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$8 million, and mostly consisted of intangible amortisation of investment management contracts and contingent consideration.

Adjusted operating expenses in the second quarter were US$286 million, compared to US$282 million in the first quarter, a 2% increase quarter over quarter. Adjusted employee compensation which includes fixed and variable staff costs, increased 1% compared to the prior quarter.

Adjusted long-term incentive compensation was up 37% primarily due to the timing and value of new grants in ’18 compared to the impact of grants rolling off. Similar to the first quarter, in the appendix we provided further detail on the expected amortisation of existing grants and the total for the year has not changed from that we provided in the first quarter. The second quarter adjusted compensation to revenue ratio was 41.8% in line with the low 40s that we’ve communicated previously.

Turning to adjusted non-comp operating expenses. Collectively, there was a decrease of 11% quarter over quarter. The main drivers of the decrease were lower G&A partially offset by higher marketing costs. G&A was down US$12.4 million due to the one-time US$12 million legal outcome that occurred in the first quarter. The increase in marketing was primarily due to spend levels returning to a more normal run rate after lower levels in the first quarter.

Turning to slide 11, I wanted to take a few minutes providing some additional colour on the guidance we've provided around non-comp operating expenses. First off, today we're revising our prior guidance on this set of expenses to the lower end of the range we provided previously in that we now expect the year over year increase to come in at around 12%.

This increase is higher than what was in the first half run rate or the first half run rate would suggest, however, we continue to budget spending to pick up during the second half of the year primarily due to seasonality and the timing of project spend. Importantly from a modelling standpoint, this increase is in addition to the cost associated with research which we have previously highlighted as well as the one time legal outcome we had in the first quarter.

Since we've received a number of questions on this point I wanted to spend a few moments further discussing the drivers behind this increase. The expected 12% year over year increase is driven by three primary factors, each of which accounts for roughly a third of the change.

Firstly, 2017 expenses were abnormally low as a result of the merger which led to a lower spending in areas like marketing, travel and entertainment and other G&A items. Therefore around 1/3 of the increase is as the business gets back to a more normalised rate of spending, that's why I've included on this page the 2016 data in the graph for comparison and context.

Second, there's annual initiatives and projects that we choose to invest in and in 2018 that's dominated by a number of mandatory initiatives required to be compliant with the changing regulatory regimes along with geopolitical elements like Brexit. And third, the impact of FX rates primarily Sterling dollar and a standard level of inflation that impacts our revenues and expenses each year.

It’s important to note that this level of expense growth reflects an exceptional set of circumstances as I’ve just highlighted and is not the annual run rate growth you should expect to see in our business going forward.

Moving to slide 12, now that we’re more than a year past the merger close it’s a good time to take a step back and see how the realised cost synergies have impacted the expense base, the majority of which reside in the compensation expense. As at June, we’ve achieve US$107 million of the annualised run rate cost synergies and are on track to realise the targeted annual cost synergies of US$125 million by the end of year 3 post the merger close.

Of that US$107 million, approximately 90% has come through the staff compensation line. This is illustrated in the graph on the slide with the adjusted compensation ratio of 47.5% in the first half of 2016 being reduced to 40.4% in the first half of 2018. That’s a reduction of 710 basis points in two years.

Given that the majority of synergies coming through as part of the merger are people related, this is the clearest way we can show you that the savings promised as part of the transaction are being realised. I discussed previously for full year ’18 we continue to expect the total compensation ratio to be in the low 40s.

In summary, we’re realising the benefits of the cost synergies coming from the merger and we continue to maintain a very strong cost discipline. However, we're not managing the business to meet a particular margin target, and we continue to invest in our business in the areas where we see long-term growth opportunities and where it’s required due to changing regulation.

Moving to slide 13 and a look at our profitability trends. We continue to generate strong operating profits and EPS. The second quarter adjusted operating income of US$191 million was slightly higher quarter over quarter driven primarily by performance fees.

Turning to EPS, the second quarter adjusted EPS of 74 cents is improved over the first quarter and 9% better than the same period a year ago and our strongest to date.

Slide 14 is a look at the balance sheet. Cash and investment securities totalled US$1.4 billion, as at 30th June. Cash and cash equivalents increased during the quarter by 6% as the cash flow from operations of US$119 million in the second quarter was partially offset by the dividend payment. In July, the remaining convertible notes matured and were retired with cash on hand so the only outstanding debt now is the 2025 senior notes.

Lastly, I wanted to refresh everyone on our capital management philosophy, which is one that looks at cash in a hierarchy of needs. First, we set aside cash for regulatory and liquidity needs, contractual obligations, midterm debt maturities and a sustainable, regular, quarterly dividend.

Second, we evaluate opportunities to strategically grow the business both organically and inorganically. And finally, if excess cash exists we review ways to return that cash to shareholders. For Janus Henderson, this capital return programme will be comprised of a regular, quarterly, progressive dividend, one that grows with the profits of our business which will be supported by regular share repurchases. And as such, I'm very pleased to announce that the Board has approved a 36 cent per share quarterly dividend and a share repurchase programme of up to US$100 million to be executed over the next 12 months.

With that, I'd now like to turn it back over to the operator for questions which Dick and I will be happy to answer.

Operator: Thank you very much. Ladies and gentlemen, at this time we will conduct a 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. And we'll take our first question from Ken Worthington with JP Morgan. Please go ahead.

Ken Worthington: Hi. Good afternoon. Thank you for taking my questions. So when Janus and Henderson merged, it was pitched as a merger of equals and I think Dick, you highlighted that both Janus and Henderson had an equal number of appointments for the senior positions. But then Jennifer left and David left from the Janus side and it seemed at least from the outsider's perspective to be increasingly lopsided with the Henderson side kind of taking some of the senior roles.

So how do you see and in particular how do you manage the risk of your more senior managers leaving particularly given again my outsider's perspective that there was some, you know, heavier weight on the Henderson side filling those top roles following Andrew and now Phil Wagstaff out the door? Thanks.

Dick Weil: Yes thanks, Ken. I guess I don't want to start by confirming your premise. I don't think the history – I don't see it quite in the same way. We had a pretty even mix to start but from that point we've really been focused on building one company and we're nowhere near as focused as your comments might suggest on the legacy starting points of various officers. And furthermore, we've been really successful at attracting wonderful new talent which doesn't come from either legacy firm and that's been tremendously important as we filled out our executive ranks.

And so I don't track this as Henderson up, Janus down and then Janus up, Henderson down or anything like it. And I don't think you should or certainly any of our employees should. The more the time passes, the less relevant the whole idea of legacy firms is. There aren't any legacy firms anymore. There's one firm and we need to focus on delivering for our clients and beating the competition and the various backgrounds of having worked at prior firms that all of us bring to the table our strengths in terms of the experience but are not particularly relevant in terms of any balancing of the boat.

Ken Worthington: Okay. Great. Thank you. In the Multi-Asset business it seemed to have a particularly good sales quarter both on a gross and a net basis, the best we've seen in some time. Love to get more colour on you know, which products, you know, really drove the, you know, the nice step-up in the gross sales.

Roger Thompson: Ken, it’s Roger. I mean, the largest piece of that is the US mutual fund, the Balanced fund as I talked about you know, it’s a very sizeable fund, it’s growing well. It has exceptional performance numbers so as I said it’s in the top – top decile – sorry, top percentile over year, top decile over three and five, so, you know, incredibly strong set of numbers and unsurprisingly we’re seeing increased flows in that area.

Dick Weil: I think if I’m looking at the right number it’s US$485 million in the second quarter 2018 net flows for the Balanced fund.

Ken Worthington: Great. Okay great. Thank you very much.

Operator: And moving on we’ll take our next question from Alex Blostein, with Goldman Sachs. Please go ahead.

Alex Blostein: Thanks. Good afternoon, everyone. So sticking I guess with the management change announcement, you know, Dick, could you give us maybe a little bit more color and the key factors the Board considered with respect to making its decision and I guess now that you’ll be the sole CEO of Janus Henderson, are there any changes or strategic pivots you're planning to make sort of relative to the path you and Andrew laid out over the last two years?

Dick Weil: Sure. Thank you, Alex. You know, the Board was faced with a difficult proposition with co-CEOs. Each had been successful in its own right and they undertook a full evaluation, they used outside advice, they talked to a huge range of internal and external people to get feedback and they candidly they did a very difficult job and a very thorough and careful and as objective a way as they could and they came out with the best decision they could in a difficult circumstance.

I couldn't possibly give you, you know, the weightings of various factors underneath that process but I can tell you it was very careful and thorough and thoughtful and both Andrew and I respected the process of it completely. In terms of changes from here, you know, we worked together to set strategy to this point and we haven't had a lot of disagreements, I think are our partnership has been strong. And so I don't think there's a big pivot to announce on the table. I do think we have opportunities to move a bit more efficiently. I think we can clear some of the stuff that may have been less effectively resolved. We have an opportunity to proceed that way.

I think we – we'll take a look at the strategy and we'll have an opportunity I think to sharpen that voice, as we would have candidly together anyway through time, I think we're learning more about the strategic direction that we've laid out previously and we're going to be able to work through that and sharpen that message in the months ahead. The number one priority of the firm is to get to breakeven and positive flows and grow profitability for our shareholders and frankly, my number one personal priority is to reach out to all the employees and make sure that they understand that. There are many who I know well and then there are many who I know far less well. I want to get to know those people, I want them to know that I value them and care about their contribution to the company and I've got to focus on that as my personal highest priority.

Alex Blostein: Great. Thanks. And the second question also a little bit bigger picture, but I guess a meaningful motivation behind the merger when you guys announced it was to capitalise on the global distribution of a combined franchise. You obviously mentioned one of the key priorities also to kind of get breakeven flows and eventually positive.

So I think going back to some of the initial targets you've laid out there was 200 or 300 basis point improvement in the organic growth as kind of aspirational target. Where does that stand today now that the firm's been together for some time? And also, with, you know, Phil's departure, what risk does that create in your achieving the targets over the kind of the near term?

Dick Weil: I think the progress we've seen in some of the products that have been sort of legacy one-side and sold through the distribution of the other has been impressive. But candidly I think the underperformance of some of the European Equity strategies has taken the amount that we can do down fairly significantly.

We have a really excellent team that Phil's built over many years on the distribution side. We have a deep bench with a lot of really superb professionals, and I think they're well positioned to carry on, you know, (Phil)'s success and deliver on the promise and the promises we made around revenue synergies and deliver on the promise of a much stronger global distribution team.

So we're not, you know, we value Phil tremendously and he's been a wonderful leader and we will miss him when he steps off at the end of the year, but certainly one of the great things that he's brought to the table is building a great team and for that we have to be very happy and confident in our future.

Alex Blostein: Okay. Thanks for taking the questions.

Operator: And moving on, we'll take our next question from Simon Fitzgerald with Evans and Partners. Please go ahead.

Simon Fitzgerald: I just wanted to get a little bit of a sense from you in terms of how you're seeing costs going forward and more over the medium to longer-term. We're seeing a lot of industry pressures at the moment, particularly at fee margins and things like that. And my sort of view is you're going to have to have another think about how you play out costs and just wondering your thoughts on that early on.

Dick Weil: Well, thank you for that question. Yes, I think the industry data is unequivocal that we're all under increasing amounts of financial pressure. I think the revenue lines are under pressure with fee pressure and I don't think the cost base is looking at the industry wide data responding in quite the same aggressive manner that maybe it has in some prior periods.

So certainly, we acknowledge that pressure. Although, I think the financial results that we show today demonstrate that with careful management and a lot of good work by people, we can still deliver really an excellent operating margin nonetheless. But we will have to continue to keep increasing the efficiency of our infrastructure and our teams in order to continue to achieve that sort of result.

So we acknowledge the pressure is growing. We have on previous calls talked about whether we see it growing in some sort of leaps and bounds. I see it more as a constant pressure that is growing. I haven't seen it in huge step functions but my crystal ball isn't perfect and you could still face that in the future. But we think of it as a pretty constant grinding pressure and it forces us to get more and more efficient in our delivery in order to maintain the level of profitability that we're currently delivering. And obviously, it's all related to the pressure that as an active manager, we have to deliver on our client promises every day and demonstrate that our approach delivers value over some of the incredibly cheap passive options. And that's a challenge we except and embrace.

Simon Fitzgerald: Okay. And second question just on people. Recently, when we've spoken to management, the sort of idea of having lock ins for the staff wasn't one of the sort of things that had been looked at very closely. But given now with a CEO departing and so forth, are you thinking about anything in terms of maintaining management structures and ensuring they don't change?

Dick Weil: Apologies, I'm not sure I heard all of that question.

Simon Fitzgerald: Let me restate it just in the sense that - if I can just restate it. Are you looking at introducing any lock-ins for senior staff to ensure that there's not a bleed of higher management?

Dick Weil: No. We always are trying to look at our employee compensation and make sure that we have the right incentives for extremely talented people to want to continue to work here, and certainly, fair compensation is an important part of that. But lock-ins are typically a very bad way to retain people in our minds. Philosophically, we don't believe that people who stay because they get a lock-in are necessarily committed in the way that you need them to be to the organisation. So we use that as a special tool in special circumstances, but we don't rely on it, on a broad basis. We need people who want to be on this team and who want to do this work and help our clients in this way. And we have to build around that rather than around folks who are sort of locked in by contract.

Simon Fitzgerald: Thank you.

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

Patrick Davitt: Thank you. As a follow-up to Alex's question, I'm not sure how long this has been playing out, but to what extent have you been able to receive any assurances, particularly from your Institutional clients outside the US that Phil's departure doesn’t put you in the penalty box or anything?

Dick Weil: Thank you, Patrick. I don't think I really have a great answer for you. That's not the sort of thing that typically I would go out and query the clients about. I think we all know, particularly Institutional clients both inside and outside the United States are not huge fans of change. And when you have change, they can be quite deliberative about evaluating the effect on that and it does slow the flow of business down.

Typically, that's much more dramatic when that change is a portfolio manager as opposed to a relationship or a sales or a marketing executive, or even a CEO for that matter. And so these are all things by degree. That said, Phil is an immensely respected executive on our team and in the marketplace. And certainly, clients will want to understand his logic, and what's driving him, and whether there are any lessons to be learned that extrapolate to a broader audience. We'll expect a lot of pointy questions but I don't think I have a better answer for you than that.

Patrick Davitt: That's helpful. Thank you. And any updates on cross-sell traction wins, particular products that are selling across I guess the legacy platforms now? I guess you gave a couple of examples last time.

Dick Weil: Yes, I think the biggest example that we've given you previously has been the global Equity income product. It's experiencing a little bit of underperformance at the moment, which probably slows down the progress of some of that cross selling. And when you report on this stuff quarter by quarter, I'm afraid you're forced to report a little bit what I would consider even over reporting a little bit as these things move around a little bit wiggle-by-wiggle. But we have a really strong global set of investment products run by excellent teams and we are very confident we can find ways to deliver those across markets with an exceptionally strong global distribution team.

So we're not seeing anything that changes our view or what we've previously said we can accomplish. But it will sort of ebb and flow with investment performance in particular pockets and it has and that will continue.

Operator: And moving on, we'll take our next question with Robert Lee with KBW. Please go ahead.

Robert Lee: Thanks, good afternoon or good evening everyone. I guess my question is on the intermediary channel. I think you mentioned that at least in the US that while clearly it's a place where you suggested seeing some better trends, and I'm just curious, I mean a lot of your peers have talked about - have made investments in, have talked about the need to make investments in broadening their product investment vehicle capabilities, whether it's building CITs or SMAs. Can you maybe just update us a bit on kind of where you stand with - do you feel like you have the right investment vehicle, not just strategies, but the vehicles as you drive into the intermediary channel?

Then maybe as a follow-up to that, could you maybe break down even the intermediary channel a little bit. Because there's - where you feel your particular strength is. Is it national wire houses? Is it kind of bank channel? Just trying to get a sense of - a more granular sense of which pieces of the intermediary you think of the opportunities in.

Dick Weil: Yes, thank you for that question. Clearly, a big part of the intermediary flows, the positive numbers were driven in the Multi-Asset line and the Multi-Asset line was heavily influenced by the balanced fund, as we've previously mentioned on this call. So if you look at the results, that's a big piece of the puzzle. Also, our Enterprise fund, Triton, Venture, our small, mid, SMid areas contributed I think to the success we're seeing there.

In terms of breaking it down by channel in terms of banks or other kinds of intermediaries, I don't have that data right at my fingertips. We can take a look after this call and see what's public and see what we're able to share with you. I apologise, but I just don't have that data right at my fingertips.

Robert Lee: Okay, thank you. That was my final question.

Operator: And moving on, we'll take our next question from Chris Harris with Wells Fargo. Please go ahead.

Chris Harris: Thanks. So we've clearly seen a lot of disruption in the US from passive. Some would argue that Europe will ultimately follow a similar path. And so (Dick), I'm wondering, having managed the US business through that, is there a different way you might want to manage the non-US business?

Dick Weil: Well, I think when people talk about passive versus active, the first problem is they talk about industries, and with respect, I care much more about our part of the industry. And so the way for to succeed against passive I think is pretty straightforward. We have to deliver risk-adjusted investment returns, which frankly means we can't blow up every three, four, five years. We have to have excellence in alpha. We also have to have excellence in risk management in order to deliver that.

Then you've got to wrap that in client relationships where it's a really positive relationship with trust, built with the clients, and I don't think that recipe is particularly different in the and in Europe. Some of the market structures, some of the regulation, some of the competitive pressures certainly vary whether you're talking about the UK or you're talking about Germany.

You know, it - Europe isn't one place either. It varies a lot market by market. But the basic underlying principles I think are constant.

The UK market has had regulatory change that I think is fairly significant and different than what we've seen in the US. And that acts as a burden to our business. On the other hand, it acts as a - sort of a barrier to entry for new folks trying to come into that space. And so there's pluses and minuses to it.

But overall, I would say, you know, the basic principles that allow you to compete against passive are pretty similar. And I think we have learned valuable lessons in the US but we've got to keep stepping it up. When I look at the industry broadly speaking, I think we've failed the communication effort with clients. So I think passive has done a better marketing job. And I think our industry has been out-marketed in terms of the actively managed industry.

And we've got to figure out, on our little piece of that story, what we can do to rebalance that boat in our favor. I think there's plenty that we can do. And I think the Knowledge.Shared platform that came through our association with Henderson that we've rolled out in the US is a really positive contribution to strengthening our message. But there's more to be done, clearly, and in principle, it's pretty similar between the US and UK and Europe.

Operator: And moving on, we'll take our next question from Brian Bedell with Deutsche Bank. Please go ahead.

Brian Bedell: Great, thanks. Good evening. Maybe, Dick, just to - and I apologise, my line got cut off for a little bit so I don't know if this was asked or answered. But just to - for the Institutional consultants, maybe not - I know you answered the question on the client side in terms of your relationships with them but as you think about the Institutional consultants, and maybe if you can just sort of comment on I think you've been coming off the watch lists. Do you expect or do you think there's a risk that you might be put on - back on watch lists with the management changes?

Dick Weil: Yes, thank you for that question. I think the answer's pretty similar to what we said before. So I think the institutions and the Institutional consultants I could bucket in - I think I was probably bucketing them in my mind in my prior answer.

We certainly have been a little bit on hold with Institutional consultants as a result of the merger and some of the changes in the business. The changes that we're seeing today will not be received immediately as positive because it's just further change by a number of consultants and institutions. That has the risk and potential to slow down the flow of business. We clearly hope it doesn't.

You know, we think that the most impactful changes are the ones to the named portfolio managers managing the clients' money and, you know, the name's on the track records. So the good news is that's not what we're talking about today. But still, any change has the potential to raise the risk you cite.

And we are - you know, what can we do? We can only go out and tell our story as well as we can and get out there as much as possible to try and shorten the time that anybody may be feeling uncertain about us.

The last element I would highlight on this is I think these changes were pretty well telegraphed. I'm not sure - certainly with respect to the CEO transition, I think everybody should have been expecting it for a while or perhaps not right when but they knew it was coming. And so hopefully that mitigates the uncertainty experienced by Institutional clients and Institutional consultants.

Brian Bedell: Great. Thanks for that, that answer. And then just maybe to dissect - or maybe can we dissect the Equity flows in the quarter between the US and maybe the Europe portion that you were talking about that was underperforming and what level of AUM do you see within the European Equity franchise that's sort - you know, in that underperforming/outflow mode?

Dick Weil: Yes, I'm going to give you a product answer more than a geography answer to that question with the numbers I'm looking at. But if you look across international pan-European products, we saw really significant outflows on the order of US$2 billion-ish.

And if you look at Janus Denver historic equities, the small, the smid, the mid-sized that I mentioned earlier, global natural resources, Multi-Strat, global Equity income was a positive contributor, some of the things like that, those were all on the positive side for our Equity strategy. So, you know, clearly the outflow were heavily focused in the areas that we outlined, where we are facing some of what we believe to be temporary performance challenges but they're significant performance challenges.

Brian Bedell: Yes, okay. Fair enough. Thank you so much.

Operator: And moving on, we'll take our next question from James Cordukes with Credit Suisse. Please go ahead.

James Cordukes: Just on the buyback, I'm interested in a bit more detail on how you and the Board came up with that number. You know, do you think we've reached a normal level of earnings retention based on the current buyback and dividend you've announced? Or are you still building up your capital position and putting aside money for, you know, new products and initiatives?

Roger Thompson: Hi, James. It's Roger. Yes, I mean, that's obviously a discussion that we've been having with the Board that we've - that the capital distribution is in three pieces, as you know. The

- you know, the regular dividend. Again it's not a hard percentage but you look at it, it's about 50% of the pay-out. And if you add in, you know, let's say the Board have approved that 100 million over a year. So if you put 50 million in for the second half of this year, that will get you to a pay-out of about 65%. In addition to that, we would've repaid back the convertible this year.

So, you know, that's - but yes, that's an ongoing discussion. But yes, you should expect to see - you know, the Board is obviously comfortable with the level of cash and capital at the moment. And that's why it's approved the buyback. And as we continue to grow and generate, you know, excess cash and capital, as we've said, you know, we look at it in a hierarchy of needs. And if the business does not have a better use for that capital, then you'd expect us to continue to - you know, to have a repurchase programme over time.

James Cordukes: All right. Thank you. I guess another one for you, Roger, as well just on the operating margin, you know, you mentioned that you don't target a particular margin but you have talked in the past about needing to reinvest. Do you think there's scope for the operating margin to still expand as you get the full benefits of those synergies over the medium term? Or will reinvestment and pressure on fee margins hold that back a little?

Roger Thompson: I think you've - you know, you've hit the nail on the head there. You know, the - you know, a business with a 40% operating margin is a good business. You know, there are certainly areas where we're going to want to invest as we talked about in the past. There are efficiencies that we will continue to look to drive as Dick has talked about. You know, those will - you know, those will wax and wane over different periods and the margin may be slightly higher or slightly lower.

As I've said, it's not - you know, that's not the one hard thing that we manage the business by. We're looking to grow the business profitably. The markets will be dependent on that - you know, as well.

But I think, you know, we've given guidance that says that you - you know, an operating margin in the low 40s is - you know, is what you should expect, given market levels where they are.

James Cordukes: All right. Thank you.

Operator: And we have time for one additional question, from Patrick Davitt with Autonomous Research. Please go ahead.

Patrick Davitt: Thanks for taking the follow-up. I know you haven't historically typically given flow guidance on how the quarter is going. We're just curious if you could frame any kind of broad flow trends through the second quarter and into July that you've seen because we've heard some pretty bad guidance at least from those that have been willing to give it for the trends in July.

Roger Thompson: Patrick, quarterly earnings is plenty. I don't mind though letting you know - as I know you know, we don't comment on shorter things and causes.

Patrick Davitt: Thank you.

Operator: And this does conclude today's conference call. Thank you for attending.