Henderson GROUP PLC

2014 Full Year Results

Wednesday 25th February 2015, 08.15 GMT

Andrew Formica, Chief Executive

Welcome to Henderson's 2014 Full Year Results. We're conscious that many of you here in the room here in London are time constrained and want to get away to Man Group presentations which start at 10am. Roger and I will try and keep our presentations concise. We're happy to take any questions; we'll start in London at the end of the presentation and then open up to questions from those who are on the line.

You can see up here today's agenda that I wanted to cover. I'll first take you through the 2014 highlights, with a particular focus on our investment performance, our flows and our operating results.

Roger will then take you through the financials, and in particular, give you an update on the improved capital position we're seeing at the Group.

Finally, I'd like to finish by giving you an update on our strategy and what we've seen in the first few weeks of 2015.

So if we turn to the highlights of 2014.

You can see on this slide that Assets Under Management were up 8% over the year. However, there were a number of corporate activities that are incorporated within this. You will recall the property transaction we conducted earlier in the year. We also concluded the purchase of Geneva Capital in October, and also the sale of Intrinsic went through in December. So on a combined basis these had the effect of reducing Assets Under Management. If we strip these out, Assets Under Management for the Group was actually up 16%.

This growth was primarily driven by net inflows which delivered over £7bn. This I can say is a record for Henderson.

We also managed to gain market share in pretty much all the major markets that we operate in.

As you can see here, investment performance also remains consistently strong with 83% of funds outperforming over the crucial three-year period.

A 13% increase in underlying profit before tax was matched by a similar increase in earnings per share. That has enabled the Board to propose a final dividend of 6.4p a share, which takes our total dividend for the year to 9p per share, up nearly 13% in sterling terms.

Let's start by drilling into more detail on investment performance.

The headlines here are that our three-year performance remains very strong, with 83% of funds outperforming. I remember standing up here this time last year, saying that 82% was a strong result, so it's really pleasing a year on to have our performance at the same level.

If you look on the one year, two thirds of our funds outperformed and this is down from 78% this time last year and really for a variety of reasons. For example, if you look on the Alternatives category, the reduction was driven by the Henderson UK Property fund, where we had large inflows over the year which meant that we held more cash and we had significant transaction costs as we put that cash to work incorporated in the 2014 performance years. That's nothing that really concerns us.

If we look in Fixed Income, the rates side of our business was positioned for a rise in government bond yields, something that we still anticipate, but which clearly didn't happen in 2014.

You can also see that our best performing capability is European equities, where we are seeing stand-out performance across the board. With the adoption of quantitative easing by the European Central Bank in January, we are seeing significant increase in client demand for European assets.

Let's now turn to flows.

As I mentioned, 2014 was a record year with net inflows of £7.1bn. We delivered net new money growth of 11%, which is well ahead of the 6% to 8% per annum target that would see us double our Assets Under Management by 2018. Our net new money growth was ahead of the industry as a whole, which we estimate would be around 3% to 4%. Even in the fourth quarter, when we did see a slowdown in our own inflows, our growth comfortably exceeded that of the industry.

You may ask, 'Why is this happening?' Well firstly, our strong investment performance, of course, contributes to what we're seeing there. But it is also our distribution relationships; it's the brand improvements that we're seeing back on the rebranding we did this time last year, and also the increased diversification that we're seeing in the business. These factors helped us maximise inflows when our strategies were in high demand, but crucially, they also maintained assets, and when clients became more defensive we tended to benefit by seeing less outflows at those points.

So in terms of both net new money growth and market share gains, this was a very good year for us, frankly a record year.

So let's look at each product line in more detail, and we'll start with Institutional.

At the beginning of last year we told you that our aim was to stabilise flows in our Institutional business, and actually we've done a bit better than that. We've managed to broaden the range of strategies we're selling, and it's important to note that many of the recent investment management hires that we've made have institutional backgrounds. Once they have built their track record, we will add distribution resource to support them where appropriate.

Looking at Institutional, if I had a negative it would be that Geneva Capital saw net outflows of around £500m in the fourth quarter. This was disappointing and was driven by a large outflow from one longstanding client who actually consented to the deal but then subsequently told us that the change of ownership had prompted them to change managers. Roger's going to cover Geneva in more detail in his presentation, but let me just say that I like the team and their investment process and I'm really impressed with the way our large US team is integrating and now working together.

Also looking forward, our new Global Equities strategy had a difficult performance year in 2014, which will likely delay client interest. On the positive side, since the year-end we've seen a good outcome where an insurance client consolidated managers. We won the large mandate, which will add £1.7bn to our Assets Under Management, but it is at a lower combined fee margin which means that the same total revenue for the Group will be earned.

If we turn now to our UK Retail business, the highlight here is that we achieved over 10% market share of total UK Retail net sales in 2014. This places us third overall in the market. This is a significant milestone and comes within five years of the New Star and the Gartmore acquisitions.

It's particularly pleasing to see the diverse range of products which attracted flows, which we've shown you in the left hand box of this slide.

If we look forward, our UK business does have a couple of headwinds we need to contend with in 2015. As we've announced, Richard Pease will be departing with his roughly £1bn Special Situations fund and he'll most likely leave in June this year. But remember, this is profit neutral for us for the first 12 months post his departure.

Secondly, the sale of Intrinsic means that we lose the Cirilium product range, which were a positive contributor to our flows in 2014.

But on the positive side, last month we completed the merger of the Old Mutual Property fund into the Henderson UK Property fund, and this has added just under £500m of assets to that fund. This fund now stands at over £3bn.

Finally, and possibly most significantly, we're getting ourselves onto many more buy lists and also gaining an increased level of inclusions in model portfolios.

If we now turn to the SICAV range, the story here is about building an increasingly resilient business through diversification. Historically, flows here have been pretty volatile, they'd ebb and flow with risk-on/ risk-off markets. Now what we're seeing is clients switching from our pure equity funds to our equity long/short funds as a more defensive play, or even reallocating away from us in equities but buying our European credit funds.

We have had top quartile net sales in European equities, with strong flows into the Henderson Gartmore Continental European fund, and also the Henderson Horizon Euroland fund. But we're also growing market share across other asset classes, and, for example, the Henderson European Corporate Bond fund was a top seller in its sector in 2014, and top quartile net sales we had in our equity long/short range.

If we look forward, we see helpful cyclical and structural forces at work in the SICAV space for us. Certainly the ECB's recent adoption of QE is driving clients back into European assets, and structurally we're seeing increased demand for sub-advised mandates from some of our banking clients as MiFID II incentivises them to move from multi-manager arrangements to sub-advise models and we're well positioned to be one of those sub-advise managers for them.

Now last but not least, I'd like to turn to our US Mutuals business.

US Mutuals had their second best year since the business was launched in 2001, despite seeing a reversal in the second half as demand turned away from foreign assets back towards the domestic US market. Nevertheless, we continued to gain share and we finished the year as the top seller in European equities.

Looking forward, our US team is off to a strong start in 2015 with renewed interest in European equities since the ECB announcement and a strong set of performance numbers, as well as some helpful ratings upgrades for a number of our funds.

Our three flagship funds, the Henderson Global Equity Income Fund, Henderson International Opportunities and Henderson European Focus all finished 2014 with very strong relative performance, each being top quartile in their respective categories.

Our objective has been to broaden the US product line and on the chart you can see the road map for our newly launched funds will achieve their three-year track record and be eligible for ratings, as shown there on the left. I am very pleased that we're also able to launch the Henderson US Growth Opportunities fund in December. This is the first new fund to be launched by the Geneva Capital team.

To sum up, the US has a more diverse range of funds now and the team is focused on growth and breadth of its offerings for clients.

I think this slide is quite a useful slide to show you the progress we've made over the last few years. As we've spoken about building scale and diversification in our Retail business has been one of the critical drivers and focus for us and it's a key factor in the success we're achieving in taking market share, as we are at the moment.

In this slide you get a snapshot to illustrate the progress we've made and you can see both by the number of funds achieving significant inflows here at over £100m per year, or the number of funds that have over a billion of Assets Under Management continues to increase.

So I'll conclude this first section by summarising what has been for me the main operating highlights for 2014.

First and foremost, we've delivered strong investment performance for our clients and above industry net new money growth. During the year we've added more investment managers to broaden and globalise our product lines. We acquired Geneva Capital to expand our US presence. We started to build our Australian business and we've already launched two funds down there. We refreshed our brand, which is really starting to pay dividends, and we've made important upgrades to our portfolio management and finance systems amongst others.

We also set about and reshaped our business where appropriate, notably with the launch of TIAA Henderson Real Estate this time last year. We've maintained the cost discipline that Henderson is known for and delivered operating margins and a compensation ratio in line with our guidance to you this time last year.

In summary, it was a great year both in flows as well as in investment performance and we've invested in our business to continue to diversify and grow it.

With that, I'd like to hand over to Roger to take you through the financials.

Roger Thompson, Chief Financial Officer

Thank you. As well as the record flows you've just heard about, Henderson delivered record financial results in 2014 in terms of revenue, profit and EPS.

The key driver here is in the top row. Our management fees increased 22% in 2014, which more than offsets the 12% reduction in performance fees from the exceptional levels of 2013. Management fees now constitute 75% of our total income, up from 70% last year.

As mentioned, 2014 was a year of investment for growth but we invested in a disciplined manner and kept our percentage cost growth beneath our growth in revenues. As a result, the underlying profit from continuing operations and the diluted EPS on the same basis was up 13%, and the Board is recommending that we increase our dividend by a similar amount.

Andrew's talked about what's driven the growth in our AUM, so I'm going to focus on the other key driver of our management fee line, which is fee margins.

Fee margins rose in 2014 driven by the growth in our Retail business. The main driver of why our overall fee rates didn't increase further, given the growth of Retail, is business mix. We've seen sale success in lower fee products, such as the Henderson UK Property fund, where we share the fees with TIAA Henderson Real Estate, as well as the evolution of our business from old high margin channels, like the direct book, to higher volume global distributors.

Andrew also mentioned the recent £1.7bn institutional win for us, which is broadly revenue neutral. This, combined with the role-off of our Private Equity business, following the IPO John Laing, contributes to our total management fee margin reducing to nearer 55bps at present.

Our strong investment performance for clients led to a good year for performance fees. This chart shows you how the mix of our performance fees has evolved since the New Star acquisition, becoming considerably more diverse, and hence more sustainable.

Performance fees as a percentage of total income has ranged from 7% to 20% over this period.

We're very comfortable with the contribution to our revenues we get from performance fees and we like the alignment they give us with the interests of our clients.

I've included in this slide the historic performance fee bonus payout ratio which depends on the mix of performance fees between long-only and long-short styles.

This is probably a good moment to highlight to you the new data book which our IR team has added to our revamped website. In it we've listed out all our performance fee bearing funds, excluding segregated mandates, of course, to help you with your performance fee modelling.

Now looking at costs, hopefully you've all had chance to review the details of the relatively small cost reallocations which were sent out in an email this morning and they are on Slide 36 in the appendix. I'm conscious that this makes the numbers a little bit unfamiliar but once you've had time to absorb these differences you'll see that our fixed staff costs came in, in line with the guidance we gave you this time last year - up 10%. We expect a similar level of growth in 2015, with about 3% of this coming from the inclusion of Geneva, 3% from wages increases and the remainder from the full year effect of our 2014 investments plus a limited number of new hires, although these are more likely to be in distribution than investment management, so should therefore produce quicker returns.

Variable staff costs were up 11% reflecting growth in revenues, flows and profits, as well as a strong investment performance but as you will see we have begun to bring down our compensation ratio.

Non-staff operating expenses increased by £15m rather than the £17m we guided, with the difference reflecting £3m of one-off FX gains.

Given that investor sentiment has now improved and we're looking to maximise the sales opportunity that we currently have, this together with our IT costs associated with regulatory requirements and our global infrastructure mean that we expect non-staff operating costs to rise by around 12% from the normalised 2014 figure.

I hope this gives you a sense that we continue to focus on our cost discipline against a background of rapid growth.

So moving on to look at our key ratios -again we explained a slight change in the calculation methodology this morning which means that we now exclude finance income in calculating our compensation ratio. Irrespective of this change and in line with our guidance our compensation ratio fell to 44.7% and our operating margin stayed relatively flat at 35.5%.

We have previously guided that we would expect our compensation ratio and our operating margin to converge at 40% over our five-year plan, there's no change to that guidance. Given the growth in our top-line and a reduction in our investment requirement we expect a reasonable improvement in our compensation ratio and our operating margin this year.

Geneva is an important strategic milestone for us in the US and it adds strong US investment capability to our increasingly global coverage. We're really pleased with the way the two businesses have come together. The investment principles remain focused on managing client money. Nick Bauer, previously Geneva's head of distribution has made an immediate contribution in building and leading Henderson's North American institutional distribution team. Our teams are working really well together and the integration is fully on track.

Geneva has been through a period of underperformance consistent with their focus on unlevered high quality growth companies. Without getting too excited about short time periods, recent performance has stabilised and is showing signs of improvement.

As Andrew mentioned we did see one unexpected outflow, but on the slide I've reminded you of the transaction structure, which protects us from AUM fluctuations and means we're still on track to deliver an IRR above 20%.

It's early days for what's part of our strategic objective to broaden and grow our successful US business. Whilst Geneva's investment performance needs to continue to improve, we are excited by the strategic business benefits that this transaction provides.

The next item I wanted to cover is tax. Our headline tax rate is below the UK tax rate, principally because a portion of our profits are earned outside the UK and are subject to lower tax rates, as well as the result of different accounting and tax treatments. These two sets of factors bring our tax rate down to a normalised 13.4% I show in the middle of this chart here.

Also in 2014, we recognised some one-off prior year items, which further reduced our tax rate to 11.0%.

Various factors including proposed changes to global tax policies mean that our normalised tax rate of 13.4% will likely rise in 2015, possibly by as much as 250bps.

Now turning to cash. You can see on this slide that we continue to generate strong cash flows from our underlying business. The proceeds from the property transactions helped fund the Geneva acquisition later in 2014. As mentioned at our half year results, we have been investing more seed capital in our business, particularly fixed income.

Finally we have separated out the cash outflows from share purchases.

That brings us nicely onto our capital position. You'll remember that we currently operate under a waiver from consolidated supervision. That waiver expires in April 2016 and we had told you that we were on track to be in a regulatory surplus without the waiver at some time during 2015. I'm pleased to announce that as at 31 December 2014, we are already in a position of capital surplus without the waiver.

This is ahead of our expectations and reflects the higher profits, the reduced consideration for Geneva, and the full effect of CRD IV, for example the treatment of seed capital. There's a slide in the appendix which shows how our capital surplus has been derived.

Given that we have reached our capital surplus a year earlier than expected I'm able to announce today that we have stopped issuing shares to meet share scheme obligations, and that we will repay our £150m senior notes when they fall due in March 2016 from our cash resources.

During 2015 – assuming that current market conditions persist and with no further M&A – we expect to build to a suitable level of capital with which the Board feels comfortable. Once this is complete and we have repaid the debt, we will be in a position to decide what to do with our future excess capital. Irrespective, you should expect our progressive ordinary dividend policy to remain in place, and for us to grow our ordinary dividends broadly in line with earnings over the medium term.

I hope I have given you some useful insight into important areas of our business: our fee and our operating margin progression, the way we view performance fees, our tax rate, and a step change in our capital status.

All in all, it's pleasure to report on another successful year for the firm – with our best ever results, a significantly improved capital position and a promising outlook.

With that, I'll hand you back to Andrew.

Andrew Formica

Thanks Roger. In this second part of my presentation, I wanted to focus on strategy and also the outlook for the group.

I thought it might be helpful to do this by giving you a bit more insight into each of our investment management capabilities.

You can see here on this slide the Assets Under Management in each of our five capabilities, split into Retail and Institutional. You can see that our Equities businesses are predominantly Retail, whereas our Fixed Income, Multi-Asset and Alternatives businesses have a larger Institutional client base.

When you consider our European business, covering equities, fixed income and alternatives, we are in a very strong position when investors favour Europe as they do now.

However, it's interesting to also note that European Equities, for example, is only our fourth largest capability in terms of Assets Under Management. When the inevitable rotation comes out of European Equities, the investments that we've made in our other capabilities mean that we're increasingly well placed.

Let me expand on this in the following slides.

In European Equities, the key is that we have a strong, experienced team of managers delivering excellent performance. It goes without saying that we are exceptionally well positioned to attract flows, as further monetary loosening in Europe drives appetite for European Equities worldwide.

However, there's much more to Henderson than just European Equities.

If we move on to Global Equities, we have a number of strong, well-established specialist franchises – notably our Global Equity Income business, which at £7.6bn is half as big as European Equities, and has generated strong performance and flows for the Group. We have work under way to develop other high capacity global strategies to meet client demand.

In terms of adding new teams and talents, our most recent hire is Glen Finegan to head up Emerging Market Equities. It's worth noting that he isn't actually starting from scratch. Our

UK-registered Henderson China Opportunities fund had the highest net inflows of any fund in its sector last year.

Client demand for income, the addition of investment talent and the acquisition of Geneva Capital mean that our global equities capability is building nicely.

Turning now to Fixed Income, but one which we are now globalising. The largest segment of our fixed income business is corporate credit. And here, we’re seeing very strong demand for European investment grade, and also increasing interest in our high yield strategies. We are delighted with the performance of our Global High Yield Bond fund, which delivered first decile performance in its first calendar year.

We were able to launch this global fund following the expansion of our credit team in the US in 2013. Our UK retail-oriented strategies had another good year and they are well positioned for the growing demand for income arising from the recent UK pension reforms.

So looking forward, we now have global and EM credit capabilities in place to expand our product range and grow our client base outside the UK and Europe. We are also looking to capture client demand for total return and multi-asset credit strategies. In 2014, we launched an Australian unit trust to stand alongside the European and US versions of our Total Return Bond capability.

Our Multi-Asset business operates in an area of significant investor demand, and is adopting a dual track approach to serve both the retail and institutional markets.

For institutional investors, we spent 2014 talking about Diversified Growth, this fund seeks to offer equity-like returns but with lower volatility, and we also introduced to the market our Diversified Alternatives range, which includes higher exposure to alternative asset classes. Whilst we now are better known by consultants, we still have some way to go to capture the important buy ratings.

In Retail, we continued to demonstrate our traditional multi-asset range, notably ongoing interest in funds that provide a combination of income and growth. It is early days for some of our newer offerings such as the Henderson Core Solutions range in the UK and also the Henderson All Assets Fund in the US, but we expect interest in these propositions to pick up once they reach their three year track record.

When looking now at alternatives, it is worth noting that our alternatives business generated nearly half of our inflows in 2014. It’s a key differentiator for Henderson that we have well-established alternatives credentials which sit well alongside our more traditional long only expertise. Having spent many years building our reputation in alternatives, we were in a strong position to capture assets in 2014, as investors looked to diversify.

With the John Laing IPO now complete and our property interests restructured, I see our future in alternatives being at the liquid end of the spectrum. Our performance in liquid alternatives is excellent, with 100% of funds meeting or exceeding their benchmark over three years. We continued to add to our AlphaGen range in 2014 and we also launched our first 40 Act alternatives fund onshore in the US in December 2014.

One of the little known success stories this year was the fact that our Commodities and Agricultural business doubled in size – albeit off a small base. Henderson acquired the Agriculture team in 2011 and also bought commodities specialists H3 Global Advisors in 2013. They now have combined AUM of over $1bn, with strong investment performance and the breadth of Henderson’s distribution reach driving organic growth.

I’ll finish with a few words on what we’ve seen so far this year in terms of flows. On the Retail side, the stand out product range so far has been the SICAV range, with ECB quantitative easing driving inflows. UK flows, whilst positive, are slower because of the changes I talked about earlier, but US Mutuals are back at similar levels to what we saw in the first half of 2014.

As at Friday last week, our Retail flows are running ahead of average levels in 2014. There's good news as well on the institutional side, where the £1.7bn mandate win I mentioned earlier started to fund in February, although this should be seen as a one-off win, offsetting some of the headwinds that we always spoken to you about that we have in our institutional business.

Broadening out to think about this year as a whole, this year is all about delivery. We're as focused as ever on delivering strong investment performance for our clients, which should allow us to keep generating above industry net new money growth. Add to this our commitment to deliver operating leverage, and you have a fairly complete picture of the focus we here at Henderson have for this year.

So, to summarise, last year we set out an ambitious plan for growth and globalisation, the outcome of which - markets permitting - would see us double our Assets Under Management by the end of 2018.

We've made a strong start in 2014, with net new money growth and the contributions from markets and M&A putting us ahead of target. In order to achieve our 2018 goal, we'll need to keep generating above industry net new money growth and strong investment performance. We've past the peak of our investment cycle, so should see operating margins starting to improve this year and beyond.

Couple this growth profile with the improvement in our capital position, and we have an interesting story developing over the next couple of years.

With that, Roger and I will be happy to take your questions. As I mentioned, I think we'll start with the floor here in London and then hand to the operator.

Q&A

Question 1

Anil Sharma, Morgan Stanley

Hi morning. Just a couple of questions please. Firstly, on flows. Given the fall off in performance in the UK property, I just wanted your opinion. Is there any capacity constraints there and what's your view on the flow outlook given it was so strong in '14?

Secondly, on the capital position. How shall we think about a buffer over and above the kind of regulatory minimum before you can potentially distribute excess?

And then thirdly, I just want to make sure that I've understood the cost guidance properly. It sounds like you're saying a step-change this year and then it should moderate, but if I look at consensus expectations most people are expecting you to get to 40% operating margin within the next three years. So do you think consensus is overly optimistic based on what you were saying about the five year plan?

Andrew Formica

I'll leave the last two questions for Roger to pick up. In terms of the property flows and capacity constraints, in some ways actually larger property funds are easier because you get greater diversification, you can buy bigger lot sizes in terms of property and you can manage inflows and outflows better. So actually what we tend to find is the larger the fund gets the more comfortable clients are of being an investor in that, because they're a smaller proportion of the overall fund, you get onto model portfolios, you're able to manage that better.

So whilst £3bn sounds like a large fund, we see the capacity of being able to get to £5bn or £6bn in that fund certainly possible. So actually there are conversely some positives for that, so I wouldn't be too worried about capacity and property, and we continue to see strong interest in that and it's a great relationship between us and obviously the subsidiary of THRE on how we manage and work with that. Roger, do you want to pick up on capital?

Roger Thompson

The amount of excess capital you hold should vary. I don't think it should be one number. It's going to vary in line with market conditions and the capital needs that we have, so it will vary over time. But importantly we're making changes now. You've seen the dividend increase, we commit to a progressive dividend. We've made a change which we've announced today in terms of stopping share issuance and buying for share schemes, and the commitment in the first half of 2016 in order to pay down the debt.

That cash and capital position is something that will continue to evolve during 2015 and the first half of ’16, so I think you'll hear more from us over that time period. I think it's a variable number over time, like I say depending on market conditions and needs of capital.

In terms of margin, we've laid out that over the five years - so there's four years to go, I guess that we'd expect operating margins to get to 40%. So if consensus is saying we're going to do it in three years that's a little bit ahead of what we've said, but we also told you that we would expect to see some of that starting to come through this year.

Anil Sharma

On the capital then, you don't think a 10%, 20%? There's no sort of percentage buffer you think is kind of the right number? I get your point that the capital number itself will fluctuate, but in terms of what should we think about as a reasonable excess?

Roger Thompson

We haven't set that number but it will fluctuate over time.

<u>Question 2</u>

Hubert Lam, Bank of America Merrill Lynch

A couple of questions. Firstly, on revenue margins. The starting point is lower at 55bps. I'm just wondering how you think that will grow during the year given the stronger growth in retail, plus I assume that equity margins are higher and I guess that that’s where flows are going in terms of seeing how that develops this year.

Secondly, institutional growth was relatively modest in 2014. I'm wondering what you think of 2015 given the headwinds you talk about during the performance as well as the legacy outflows outside of that large institutional mandate?

Andrew Formica

On the revenue margin, I think it's probably worth emphasising that a lot of people look at the mix effect, and you're mentioning growth we're seeing in retail, and obviously that is a positive contributor. But the biggest driver of the revenue margin mix is actually your existing book of business, and as you know we have a significant bias towards equities, so if equities outperform fixed income, which they didn't last year, then that will obviously benefit us because our equity margin is much higher than our fixed income margin.

So I think to sit there and say will the 55bps have a positive or a negative influence, it's probably got a positive influence if you think equities will outperform fixed income. That's generally where we're positioned in terms of portfolios and what we expect. It's what we expected last year and it didn't materialise. We expect it to happen this year but who can tell? But that will drive that. And you're right, that there's another helpful kicker being that retail is likely to be the strongest driver of inflows for the Group this year, and that is at higher margin than our average and therefore you can see those benefits.

So yes, there are some positive trends there. That probably offsets the inevitable sort of margin pressure that you just face in any business, though I wouldn't say it's acute, I'm saying we don't see it as any higher than any normal year, so I'm not ringing alarm bells on that.

In terms of the institutional side of our business, we always said that the institutional side growth would kick in over the life of the five year plan and be more backend loaded. 2015, if we had expectation of what would have come through, would have been global equities hitting a three year track record. Its first year was a very strong year, its second year gave back pretty much those gains, so it's broadly flat on a since inception basis, which just delays an early uptick I would say in global equities.

The other developments of what we're seeing, whether it's the fixed income, whether it's the multi-asset developments, whether it's the emerging market equities, they're all on-track, but they still remain more towards the backend of our 2018 plan. Remember as well, because one of our clients has a natural run-off anyway, we have some CDOs and the like to retire that won't be renewed, so the implication of those is clearly that there are outflows coming from that part of the business.

Finally, the IPO of John Laing means our private equity business, which the infrastructure funds represent around £800m, they will drop off. We actually don't earn fees on them going forward from now because the IPOs happened, but you probably won't see that until some point in the second half that it comes out of our AUM. But that is factored into that 55bps, so it'll have an impact in terms of flow in that quarter, but it won't have an impact in terms of margins or revenues. The net effect of that is institutional we still feel is developing well and we're happy with where it is, but it's definitely behind the position we find ourselves in retail.

Question 3

Peter Lenardos, RBC

Thanks and good morning. Just two questions please. First, on another question was asked on the regulatory capital buffer, but what is the requirement - if you want to disclose that - and which direction is it moving?

And the second would be, any updated thoughts on the unbundling proposals? Thanks.

Roger Thompson

You can see it laid out in the Appendix, Peter. On Slide 38 you can see how our capital is calculated. This is based on our Pillar 2 calculations at 30th June last year. Obviously with our audited results for this year, so 2015 getting audited, and an ICAAP process in 2016, then the FCA will update those numbers. But you can see on Slide 38 that our capital requirement that we're estimating now and have talked through with the FCA is £164m.

Peter Lenardos

How has that been moving over time? Have the acquisitions caused that to increase?

Roger Thompson

We go through a very thorough ICAAP process, that increases and decreases over time, so the increase in seed capital that we have has increased that number. The disposal of the non-liquid end and the seed capital and co-invest we have in property and private equity coming off in 2015 will actually decrease that because they're higher capital positions. And obviously the growth in the business will increase that number over time. There's no step-change that you should be concerned about I think would be how I would summarise it, Peter.

Andrew Formica

To your question on research payments being payable through dealing commissions, which is part of the MiFID II text, we did have obviously a helpful update which seemed to back away from a full unbundling and hard cost at the backend of last year. That said, the proposals appear unworkable, so the devil's in the detail as always with these. It's very unclear where it still will lie, because the proposals they've put forward requires client consent in every instance in terms of how you would adopt this approach, and it looks a very difficult approach. The current regime with CSA which seem to be the right mechanism to deliver what they're after seems to be challenged in some of the rulings.

There is a lot of clarification still being sought, and it's interesting that if you talk to different regulators across Europe you get different answers. So the FCA, which was one of the advocates for driving this change, still see it as unworkable and therefore you have to go hard. If you talk to the Europeans such as the French or the German regulators, their view is oh no, no, this was deliberately put in to make it workable, we understand that it doesn't work so we need to understand how we can change it. So until we get clarity it still remains a bit up in the air. But they've definitely backed away from the extreme position we saw in the summer last year.

That said, the UK regulator, the FCA, is still very fixated on going down this path. They do seem at odds with the rest of the European regulators, but time will tell in terms of when the final text comes through. So there's a lot of discussion by trade associations of the industry trying to just get to a workable solution.

Just also be aware that the dealing commission is only one part of MiFID II, and MiFID II is a 1,160 page document which I don't recommend any of you read, but there's significant reforms in there around disclosure and transparency, the operations of how you trade, which by and large won't change significantly what we do but they do have a significant cost in terms of system development, in terms of compliance costs and the like, and Roger mentioned the higher non-staff costs that we will see in 2015. A lot of that is driven by these regulatory changes which are just additional burdens on us as a business.

It’s Interesting when we looked to 2015, because of the level of investment we made in the front office and distribution we felt that we didn't to make significant in 2015. All the costs that we're generally doing that are approved are all around dealing with regulatory changes, which we don't think provide a great deal of different protection to clients, but do put a huge onus on us in terms of cost.

Question 4

Paul McGinnis, Shore Capital

Good morning. I think Andrew you mentioned fee deflation wasn't any more severe than it has been in recent years. Could you just run through within the particular markets is there any particular markets where you're feeling it more than others? Then with a specific reference to UK retail market where obviously the platforms are competing for business at the moment and putting pressure on fund managers to offer super-clean units etc. whether there's anything in particular going on in that market?

Andrew Formica

I wouldn't really say there's much change. In terms of UK, a lot of the pricing pressure came around the introduction of RDR where people positioned their platforms, because now it's about charging your clients and less about Henderson. If you remember, we talked about getting onto some of the model portfolios and some of those area you'll have discussions around the pricing of your products because you clearly get greater scale with that.

The biggest impact for us in UK has been less about pricing pressure in new business but more the mix effect, because we still like many of the industry have a lot of business written decades ago at 150bps, which is rolling off, you're not writing that, and your new business is being written at closer to 70bps. It's more the inflows are generally at lower than what the outflows are of the Group. So that's driving your margin effect far more than pricing changes in the retail marketplace.

In Europe we don't see pricing pressure. I'd expect that in time you will because I expect that they'll end up in a RDR type world on a, say, three to five year view, and you'll have therefore similar pricing challenges or changes that you saw in the UK. But that's not on the horizon for the next year or so as far as I can see.

And the US, as we get scale the Mutual Fund Board do tend to bring down your prices. We saw some of that last year given the strong growth we saw. It's still very good margins, high 70s that we're getting in that book of business. You may see a basis point or so of pressure there.

Institutional is probably where you see the most acute margin pressure, and the problem for us to give you any good guidance of it is our mixed institutional business is so broad it’s not like it’s one channel or one type of product that’s there, but it is fair to say fixed income pricing’s under pressure, just generally given by low yields and low returns so it’s how much you see as a percent of that, that’s probably impacting the institutional side of the market.

But as I said, I don’t think there’s anything acutely different to what we’ve seen in any other year, it doesn’t look like it’s accelerating or picking up and for the UK in particular you mentioned it’s more probably the back book rolling off as a bigger driver of your fee margin than pressure from platforms or clients.

Paul McGinnis

Thank you. Can I just have a quick follow up on performance fees? Again is there any particular resistance in the market on any particular product categories? Obviously you've had quite a good year for the second year in a row on those.

Andrew Formica

It's particular channels, the UK retail and the US retail side of our business don't have performance fees, except on an absolute return fund, they're difficult to get on the platforms and also one of the things we've seen because of RDR investment trusts which typically had a performance fee have often been seeking to renegotiate to take off the performance fee so they're more in line with their unit trust component. So those channels probably have lower performance fees and the institutional side of our business, it's a mix, some of the new strategies we're developing are more likely than not to have performance fees on them, but then we still see a number of clients who favour performance fees. Our European business typically have performance fees.

So it's really a mix effect more than clients changing their attitude towards them. Some clients like it and some clients don't, our view is they do align yourself, but if structured correctly they align yourself better with the client.

Question 5

Gurjit Kambo, JP Morgan

Hi good morning. Just in terms of the SICAV growth in sub-advised mandates is there any difference in the margin there and is that potentially offset by lower costs in sub-advised mandates?

Andrew Formica

Yes. Thanks, Gurjit. So firstly maybe just to talk about why is it driving it? Because of MiFID II the challenges for some of the banks will be around transparency and the rebates they've got so they're looking to go for a multimanager solution which would see a rebate, so they own a bit like a St James's Place type structure. So you're right, for that we will probably see a lower margin in terms of the sub-advised, but what are the other challenges we've had in Europe? You'll get two effects, you will have lower costs associated with it but the second effect will also be you should increase your persistency on that book of business.

So Europe perennially is run at about half the efficiency of the UK and that's because they just generally trade and churn a lot more. If you move to a sub-advised mandate you're likely to have a much, much longer, more institutional type relationship. So I think the offset of the persistency and some lower cost would be more than offset I think than the lower margin in that regard.

Gurjit Kambo

And just one quick follow up. In terms of the sort of flows in 2015 you mentioned quite a lot of SICAV and US mutuals, what about sort of asset class and particular funds that you're seeing flows into?

Andrew Formica

European equities has probably been the biggest driver, both US mutuals up until the day of the ECB quantitative easing we were seeing outflows in our European equity products, less in the industry but we were seeing it, and pretty much the day that US buyers came back into Europe. We got very strong performance in our international which is an EC product which again has a significant European component so we're seeing significant growth there, and in terms of Europe itself they're really buying all European assets, they're buying equities, they're buying equity long short and they're buying fixed income or corporate bonds. So actually I wouldn't say it's focused just on equities, it is focused on the region.

Question 6

Marcus Barnard, KPW

Just on your strategy to double your assets under management by 2018, can I just ask how much you're prepared to flex those ranges and I'm particularly interested in acquisitions, whether you'd look to do more than 2% to 4% if the right opportunities arose?

Andrew Formica

Marcus, yes, I think that's more an indicative roadmap for the focus of the Group. So when we set it out a year ago it was about emphasising that we felt organic growth was the main driver of the growth of the Group, and that we felt we were positioned through performance and investments in products and capabilities to be able to grow better than the industry, that was a prime focus.

If you couple that with market returns which you'll have your own estimates on and we will try and just articulate that you should consider us to continue to do acquisitions but they're opportunistic and more bolt on rather than the more transformational deals that a New Star or Gartmore had, that was the main emphasis.

So of course you're right, but if we don't have a target to do 2% to 4% over that period we wouldn't be surprised if it was of that magnitude, it could be less, it could be more, it'll be based on opportunities we see and at the right price and what we feel could really grow our business. So yes, it is purely opportunistic, there's not at all a target to do M&A and if we haven't done anything this year will we be upset? Absolutely not.

Question 7

Ross Cohen, Commonwealth Bank

Hi gents. Sorry I know it's more, but if you could just talk through the development of your business in Australia, you've got two equity funds here in Australia, but I note that one of them is 20% underwater and the other one's underperforming the benchmark by 10%, so I imagine it's a fairly tough job trying to sell those funds at the moment so maybe you can talk us through the plans for growing the business in Australia, how much you've got invested so far and what you think success looks like there?

Andrew Formica

Okay. In terms of the equity funds you're right, one fund is behind benchmark and that's the global equity fund which we launched, as we said had a tough 2014 and that was launched pretty much at the wrong point in terms of returns because it had a very strong '13. So that was the one I mentioned earlier.

The other fund whilst it is down in terms of an absolute return, it's actually significantly ahead of its benchmark because it's a natural resources fund and actually we see that's our sub-advised to 90 West where we own a 42% stake. Interestingly we see increasing interest in that capability and that manager, so we've actually got quite strong hopes in that.

In terms of the strategy down in Australia it's continuing to add global capabilities, interestingly one of the things that we'll hopefully launch shortly is a global equity income fund. When we tested the market 12/18 months ago people weren't interested in buying the income story, what you get from global equities, getting 4%, 4.5% income wasn't seen as attractive enough in the Australian market given what term deposits were.

Roll forward 18 months, term deposits are rolling off at the sort of 4.5% to 6% coming in at much lower, where if you wanted to renew them the RBA has cut interest rates down there and looks set to cut further, and also the fall in the Aussie dollar means a yield of 4.5%, something more attractive and also global diversification's attractive.

So we see a growing interest in the Australian market for global equity income, which as I mentioned earlier is one of the real strengths of the Group and has been something we've been selling extensively across the globe, so that could be an interesting opportunity for us in Australia.

Ross Cohen

Great. And just one other, just a quick question. I know markets have been pretty strong since the balance date, can you give us a spot funds under management at the moment?

Andrew Formica

No.

Ross Cohen

No probs.

Andrew Formica

The answer's no, we won't. You can do your own modelling and we'll update it obviously at the first quarter IMS.

Ross Cohen

Sure thing.

Question 8

Arnaud Giblat, UBS

Good morning, sorry for not making it over. I just have a couple of quick follow ups on MiFID II. I was wondering first on the comments you made around MiFID II incentivising a move to multimanager, to sub-advised. Obviously all the comments you made are on revenues and costs but could you maybe go through a bit more in detail the dynamics that would drive that transfer?

And secondly on bundling, I mean first of all it seems as well at this point it's unclear whether it's a directive or a regulation and I was wondering if you had a view there, more specifically I'm wondering if the FCA will be able to gold plate it?

And secondly, under the current proposals whereby you're still able to charge the end clients as long as they agree, if it comes through in that way, although it might be difficult to implement on the current funds is it not to be envisaged, for example on the retail side to just put it in your new fund prospectus on a fact sheet that research budget is X and therefore you should expect these charges to be charged within this sort of expense ratio and for that to work?

Andrew Formica

I'll let Roger pick up the cost side of the sub-advised changes, I'll pick up the unbundling discussion after.

Roger Thompson

Yes, as Andrew said, the multimanager is a full fee rebated model, and the sub-advisory is a clean fee institutional product so it's like we're running more institutional mandates and as Andrew said with the cost profile of supporting a single institutional business as opposed to a retail fund. So there is a real difference there and as we said there is also a longevity component in terms of the value of a piece of business like that.

So from our point of view it's how that is serviced is the real change, plus obviously as you get to scale there can be a revenue component to that in terms of the price we would do a large sub-advised mandate at.

Andrew Formica

The other thing I'd add to that point as well on this, at the time, what we've got is such a strong brand and investment performance at the time these changes are being discussed, so it means we're having a seat at the table of those debates and discussions. It goes back to that point about persistency, getting to those tables and getting into those models can actually be the biggest driver of your growth going forward so I wouldn't get too offset about what the margins are and we're not even having conversations where we know what those margins are anyway, but the fact is Henderson's brand and performance, it's recognised that we're having those conversations that three years ago it would have been unlikely that we would have been in that position. So I think that's probably the real positive to take away.

In terms of unbundling, you asked two further questions to what we discussed earlier, the first was with the FCA and the UK gold plate, for those in Australia that means take a more aggressive line and do different to what the rest of Europe which they're entitled to do, all indication from the FCA is that they will only do what Europe does so that they're lobbying hard to get Europe as a whole to get to the position but that they will accept the position that Europe gets to and there's been no change in the conversation from them that they will gold plate, though I think they will hold everyone to account to fairly high standards of what their expectation is from whenever the rules come out.

So I've put a very low probability that they would gold plate and I'm in direct contact with the FCA on this point, have been and will continue to be up until the final legislation comes through because it's so important that they do not miss step outside of the rest of Europe which has already been stepping outside of the rest of the world so we're pushing that quite hard.

And in terms of how you would get client consents in the retail environment, would it just be as easy as changing a prospectus? At the moment the devil's in the detail, it would be impractical to go to every single client to get approval, as much because we don't even know all of those clients because we go through platforms and so you're right, the easier way might be to change prospectus and the documentation especially with the fund and then get approval from the ACD or from the trustees representing those interests of those investors to approve that.

So similar to say like a US mutual fund where you've got a mutual fund board you can just get them to make the approvals on behalf of the shareholders or the clients and that's probably the right outcome but until we get the detail it's hard to sort of assess. So I do expect we'll get to a workable solution, but like everything in Europe it's going to be last minute.

Question 9

Ryan Fisher, Goldman Sachs

Thank you. Andrew, I've got a few questions, I might just start off with the run rate of 55bps management fee margin. I'm just wondering if you could clarify a few things there, in particular with John Laing it sounds like the fee's already gone but the AUM stays in there and that the fixed income mandate, that very low fee, hasn't yet funded. Could you just clarify how those are treated in the 55bps numerate and denominator?

Andrew Formica

Yes, they're both included, the thing about the IPO, the reason why the AUM hasn't left is a lot of the proceeds for the investors are held through John Laing shares because when the IPO happened it didn't raise 100%, they raised only 35%, so investors will in those funds still have an interest in John Laing and that is locked up for six months, so that's why even though we no longer are charging fees because we're not doing any work as part of that from an AUM point of view it is actually locked up until that's realised in six months' time.

And on the large fixed income mandate we mentioned it has pretty much funded now by today and the run rate of 55bps is trying to give you the fact that it's distinctly different to where we were at the end of last year, that's why we highlighted it, so that 55bps incorporates those changes as of today, even if not all of the mandate is fully funded. For example it's factored in to give you that, so it's more for clarification purposes rather than actual.

Ryan Fisher

Great. And just on that topic, Cirilium I gather is also ready, fully adjusted in there?

Andrew Formica

Yes, Cirilium left in December so that was already factored into the £81bn of AUM that we had and Cirilium was actually lower margin than the Group margin because it was a sub-advised mandate, so that was already factored in to our run rate at the end of the year and is factored in to the 55bps.

Ryan Fisher

Great. And two quick updates, could you please just give us an update on what you're expecting with the Richard Pease departure in terms of management fee and also profit margin impact? And also we've been seeing a bit of talk regarding risks to Sesame in broader terms than just the Henderson relationship and how are you seeing that?

Andrew Formica

Okay Ryan, firstly Richard Pease, since he announced his departure we'd updated I think in the Q3 IMS that we'd see some modest outflows. Richard's funds himself would see the most significant outflows but we've been able to offset a lot of that through growth in our existing European managers. We're down tens of millions, less than a hundred million but getting closer towards that level in aggregate since the announcement. And the impact is the way the structure and the relationship is set up that when Richard moves we continue to have an ongoing interest for 12 months from that point. So through to, if he moves at the end of June for example this year, through to the end of June 2016, it'll have no impact in '15 and minimal impact in '16 and we're able to now move forward with the proposition we have with the rest of our European managers which is doing well in the UK space.

In terms of the relationship with Sesame, you're right, there's been a lot of rumours around the ownership of Sesame as a group, Sesame Bankhall, obviously that is our joint venture partner in our optimal range, the Intrinsic range that you saw was a much, much larger business than optimal, by the order of probably I'd say ten times, so it's a far smaller issue should the same thing happen. I wouldn't anticipate or factor anything in because it depends, if those rumours are true and they do actually dispose of it, it also depends on who's buying it. The problem with Intrinsic was it was bought by a competitor who was also one of our largest clients and they had a lot of the capability that we were offering. If it sold at all is one thing, if it sold to a competitor or to another owner who doesn't have the investment management capability it would have no impact and actually could be beneficial for us in this regard. So at the moment it is only rumours and we just have to manage the business as best we can but in terms of scale, as I say, it's about a tenth of the size of the Intrinsic relationship.

Ryan Fisher

Right, thank you. And a final question, Roger mentioned the likelihood of another 12% increase in non-staff costs, I was just wondering to what extent does that tie in, Andrew, with your comments about MiFID related regulatory spending. Is that separate or intended to cover up some of that?

Andrew Formica

I mean that's a large part of it, and we talked about a number of the things that are included in that, there is our global infrastructure coming online which we talked about over the last couple of years, the costs of running and depreciated the costs we've put on there for a true global infrastructure, but a big part of that increase is the cost of implementing systems for regulatory. So that's very much included in that number. That number increased in '14 and as we've indicated here there is a further increase in '15 but it very much included the regulatory piece.

Also included in there though is the expectation of the improved investor sentiment so we did cut back on expenses in the fourth quarter of last year as investor sentiment came down with the strong flows we've talked about and the strong positioning of our equity business, European business, then we're obviously looking to maximise the opportunity we've got now so again some costs coming through there.

Question 10

Nigel Pittaway, Citigroup

Hi Andrew, Roger. A few quick questions if I could. First of all I just wanted to be clear what you're saying on the tax rate, obviously 13.4 normalised plus 2.5 is 15.9, what's the chances of one-off impacts in FY15 or do you want us to put 15.9 in?

Andrew Formica

Well I don't think we'd definitely say don't put 15.9 in, we're saying it could be as much as that. As we leave this year 13.4 is the normalised rate, so that's where your starting point is. There are a number of discussions at a government level across the globe around harmonising tax rates and policies, the impact of those at the extreme level could be up to 2.5% to that rate, they may not come in at all in '15 in which case you're staying at 13.4 or they may come in partially which will be somewhere in between.

So in terms of that, we're trying to give you an upper range rather than tell you that's where it should be. And at the moment we don't know but if anything there's upward pressure for the tax rate, given what's happening at a political level across the globe.

In terms of it being a one-off I'll let Roger sort of talk about that.

Roger Thompson

Turning point four is your starting point, as Andrew said there's upward pressure on that so you would normally expect it to be a little higher and as you said, 15.9 is what we would think would be an upper limit. In terms of one-offs then I think there's still opportunity for one-offs to benefit the rate, so there would be things that would bring it down, we can't see one-offs taking it the other way. So there are a lot of moving parts here so as Andrew said, 13.4 is a base, moving up over time as we've talked about it in the past, also in part to us doing more business in higher tax year into the US and Australia but global tax rates changing, 15.9 being an upper limit probably for this year but with some potential for some one-offs to reduce even if it was to go up that high.

Nigel Pittaway

Right okay, thanks for that. Just secondly, I mean sorry if I missed this but obviously you guided to 12% growth in non-staff operating expenses, did you give any guidance on fixed staff expenses?

Andrew Formica

Yes, the guidance on those is they will be up 10% year on year and that's really split into three different pieces. There's the full year effect of the Geneva transaction, bringing those people on board for the full year is about 3% of that; about 3% is what we're assuming will be a wage increase cost and around 3% from the full year impact of investments last year and some limited more investments this year. So it's a 10% number, the last piece, the investments we're making this year is probably the smallest piece of that.

Nigel Pittaway

Right okay, thanks for that. And then just on the property joint venture, I mean obviously that had a, I think a bit of a slower start than anticipated, are you expecting that now to go at full run rate as we head into 2015?

Andrew Formica

Nigel, the TH Real Estate joint venture '14 was a transition year for them, it was a significant set up cost and limited amount of the investment profile we get, so we would expect to see that pick up and actually the fourth quarter we did see an improvement in net flows and we anticipate that that will continue into '15 as the full scale of TIAA comes to benefit that business.

The other thing however I would say that happened in '14 was we talked about the past 18 months, fund renewals and the risk to some of those fund renewals, interestingly for that business the fund renewals probably went better than we anticipated but probably at much lower margins, partly because of either the reduced role that they would play going forward or just the pressure of clients in terms of building the other margins.

So the net effect of that meant the fund renewal programme probably came through net, net similar to where we'd anticipated and I think that's probably a better outcome than if we hadn't done the deal because TIAA is capital and presence they probably help support those, but that business, as we said at the time when we looked to move it into a joint venture, had a number of structural challenges and those continue to be. There's huge pressure where existing clients are becoming competitors. You're seeing the large sovereign wealth fund and you're seeing the large pension funds doing a lot of the direct property themselves, and that's the issue for them. But they are growing well and the capital supported by TIAA has been a strong support for that business which we just could not have done. So you're right, 2014 was probably there in terms of investment, you will see an improvement in that business in 2015, but it's still considerably lower than where it was back in, say, 2012 when we were looking to the changes we made.

Nigel Pittaway

And maybe just a very last question. Obviously just trying to tie in the performance fee second half which doesn't seem to have come from offshore absolute return funds, or at least that's the sort of area that's probably most surprised, and yet you look at your flows in those areas and they're fairly small. So should we view the strong performance fee performance as a bit of a sort of precursor to flows in that space, or is that making too much of a connection between the two?

Roger Thompson

That's much more timing of when performance fees are due. On those ranges a lot of them do have they are once a year performance fees and there were some significant ones in the fourth quarter in those ranges. So the asset levels that we've talked about before, offshore absolute return, returns to positive flows in the middle of the year, it was relatively flat in the fourth quarter as well. So the asset levels aren't really changing, it's a timing issue of when those performance fees are calculated and payable.

<u>Question 11</u>

Mark Hancock, Precept Investment Actuaries

Just a question in terms of the bonuses and the profit sharing, Roger mentioned that they reflected the improved revenue in foreign profit. Your bonus formula also depends on the share price. We've seen that escalate rapidly since balance date. I just wondered, has the current share price been reflected at all in the bonus comp, or will that happen in the next half?

Roger Thompson

You're right, the share price was relatively flat last year and has accelerated quite significantly in the first part of this year. Obviously that's going to be a 2015 event. The biggest element of that is National Insurance on bonus payments, so there is an element, but we purchase and have been issuing into those schemes so it's a partial event as opposed to a full change. As share price increases then yes there is a cost which will go through the P&L.

Mark Hancock

So other things being equal you'll have a drag on the first half profit from the current share price if the share price is maintained other things being equal?

Roger Thompson

All other things being equal, yes you would have a small drag. As we've talked about other things we aren't expecting to be equal.

Andrew Formica

It's being driven by increased flows. We don't pay away the full impact of the revenues we receive, so I think the net effect is shareholders should be pretty happy.

Mark Hancock

Has there been a bit of up-fronting with the performance fees in respect of the sales team for funds that were sold? I guess as the second half wasn't so strong that wasn't such a big factor in the second half.

Andrew Formica

The compensation ratio came in probably a touch under 45% where we said it might come in at, and that's a factor of the slowing flow in the fourth quarter, and as you've mentioned some of the share price having been weaker in that fourth quarter, and that's factored into our 2014 numbers. For 2015 we'll have to factor in sales, performance fees and the share price as part of our budget. But we're comfortable that the way the bonus pool works, that we can achieve what we need to pay and factor that in and still see the compensation ratio come down from where it was last year.

Mark Hancock

Just another question. In terms of Geneva, I assume it contributed a quarter of revenue. Would that have been about US$4m?

Roger Thompson

Yes, that will be about right.

Mark Hancock

US$4m contribution to revenue?

Roger Thompson

Slightly higher than that in dollar terms.

Mark Hancock

You can't give us a figure on profit before tax contribution?

Andrew Formica

We do have a 50% operating margin.

Mark Hancock

So around US$2m contribution.

Andrew Formica

I would say that in pounds, yeah. That's probably closer to that in pounds rather than dollars.

Mark Hancock

Okay. So we're getting three-quarters' of the benefit of that next year obviously.

Andrew Formica

Yeah, that's right.

Mark Hancock

And we won't have any more EPS dilution as a result of it because you've largely paid for it in cash?

Andrew Formica

Yeah correct. We have got some deferrals associated with it, if you recall, but yes we're paying with cash.

Mark Hancock

And in terms of Geneva Alpha, Roger hinted that the performance had picked up a little bit. Can you be a bit more specific about the Alpha to date?

Andrew Formica

Look I don't like to talk on quarterly numbers. They had picked up a couple of percent in both the strategies of small and mid-cap. But I don't like us to be criticised on quarterly numbers on the negative side, I'm not going to be glowing about quarterly numbers as well on the positive side, but it has moved the right way.

Mark Hancock

So you feel like we're at risk of losing a bit more fund before you stabilise it?

Andrew Formica

There's always the possibility. I think that one large client that we lost took out half of their money and they've kept half there, and I'd say that the risk could be that they choose the other half to go, but that would probably be a second half effect if that was to happen. Although they could be happy with seeing the team bedded down and that there's no change. We were very surprised to have a client consent and then pretty much take the mandate away based on the change in ownership, and that really was their driver. But as I said, they've retained half their holding. You'd have to sit there and say that that's higher risk than you would have thought it was three months ago. But they have said they'll keep it there for now and through to the second half, and we'll re-evaluate a year on from the deal.

Mark Hancock

My last question. Was there any contribution from currency movements net?

Roger Thompson

Very small. The one item I said about in other operating expenses was a £3m FX gain in the fourth quarter or in the second half, which obviously will be a one-off item. So you should normalise for that.

Andrew Formica

Yeah, I think it was about £3-4m currency impact.

Mark Hancock

You mean adverse?

Roger Thompson.

No, positive in 2014.

Mark Hancock

And how did that come about?

Roger Thompson

That's a re-evaluation effect of balance sheet items.

Mark Hancock

But not in the profit and loss account or went through the P&L?

Roger Thompson

That's through the P&L.

Mark Hancock

The £3-4m FX positive, which is in your 187?

Roger Thompson

Yes, that's right.

Mark Hancock

That's pretty material. And it's all in the second half or mainly in the second half?

Roger Thompson

That was all in the second half, yes.

Mark Hancock

Okay, thanks for that. I'm surprised you haven't called that out.

Roger Thompson

I did mention that as we went through. That was in the presentation.

Mark Hancock

Okay. Sorry, I missed that. Apologies. Thanks for your time.

Question 12

Scott Olsen, UBS

I just have a follow-up on Ryan and Nigel's questions on costs. Sorry to labour the point, but the message through last year was that double digit growth was only really a ’14 feature and would be reduced from there. Now obviously we have double digit guidance for this year. I appreciate there's some flow through there, but given MiFID II compliance it'll probably be a multi-year process and you might have some headroom from strong revenue growth. Should we be thinking of an ongoing run rate of costs being kind of in the high single, low double digit range rather than tracking down to mid-single digits beyond 2015?

Roger Thompson

The guidance we've given you is really around our compensation ratio and our margin. Both of those are going to improve. We will add costs as we're adding revenues. Some of these are volume costs with third party outsources, some of them are costs associated with sales, and some of it, as you've pointed out, is regulatory cost. So as the business grows obviously the cost base will increase. The important thing is that the margin will improve. The comp margin came down last year and will continue to come down in 2014, and the margin is going to rise, as I've said we've guided up to 40%, and some of that will start to come through this year.

Andrew Formica

But I would say Scott, you're right. To factor in inflationary costs of, say, 3%, regulatory challenges will continue to be there so they're going to be a couple of percent to that, and you're going to have investments to support the growth. Because if we keep growing, even we grow net new money at 6% to 8% you need support for that as well, and we're obviously growing faster than that.

So the combination of all that you should be expecting those costs to be high single digits rather than mid to low single digits. But obviously if the growth isn't coming through we'll still have some of those costs as inflation will remain in any business like ours, and unless the regulatory environment changes they're not going to drop away in a hurry, but some of those costs are associated with supporting what we see as very good top-line growth.

CONCLUDING REMARKS

Andrew Formica

I think that might be all the questions we have. Obviously if there are any follow-up questions feel free to come back to Miriam in the IR Team. I appreciate that some of you in London have to rush off, but thank you for your time this morning and we'll see you all over the coming weeks on our roadshows.