2014 Interim Results Transcript

7th August 2014

Andrew Formica, Chief Executive

Welcome to all of those who have joined us here in the UK, and also those joining us remotely on the phone from Australia and also from the US. Today I'll be presenting the Henderson Group's first half results for 2014, and I'm joined by Roger Thompson, our CFO.

Looking at the agenda that we'd like to cover today, I want to go through the first half highlights, and also to give you a sense of the industry overview so we can put in context the first half performance to Henderson into that broader market context.

I'll then set out the progress in the first half of the investment program we're doing that we're calling Growth and Globalisation, and how in line with the strategy that we articulated in February how we're doing in that. Roger will take you through the financials in more detail, and then I'll come back at the end to just cover off the new term outlook for the Group, as well as leaving plenty of time for any questions at the end.

So, if we turn to our first half highlights: the assets under management for the Group was up to £74.7 billion, this is up 10% since this time last year, and the main driver was being strong flows into Retail. Flows for the first half were £5 billion, £3 billion in the first quarter, as we've already disclosed, and £2 billion in the second quarter.

Client activities flowed somewhat in the second quarter, but we continued to take market share in our major markets.

Investment performance remained strong, with 86% of funds outperforming on a three-year-basis.

Profits on a continuing basis were up 2%. A good result given the increasing level of investment in growth, as we told you we would be doing in February, and also that performance fees were lower than this time last year. We have been supported by a strong uplift in management fees, which are up 21% on this time last year.

But of course, for me, one of the highlights of the half was the announcement of the acquisition of Geneva Capital Management. This fills a gap that we've had for quite a while in US equities, and we've been looking for a while there, and also it also strengthens our institutional distribution in the US, which is again another important component for our long term growth.

The Board has approved a dividend for the first half of 2.6 pence a share. Roger will take you through the change in the way that we're thinking about the interim dividend, so it's suffice for me to say that it reflects our confidence in the ability for us to grow our business.

Before I dive into the results in more detail, I thought it would be useful to include some market information by way of context.

So, on this chart we show the market returns in the first half of 2014 for the asset classes where we participate. It's been a fairly benign period with all areas delivering moderately positive returns.

Looking at Equities, my view here is that valuations are pretty fair and that there will be modest support from earnings growth. There is still cash in portfolios, giving the option to buy on dips and when also when market's correct, which is pretty much the experience that we have seen from clients in the first half.

If we turn to Fixed Income, here it's a bit more challenging. I think there's a risk that the market may have rerated interest rates too low, so I would say the outlook looked more negative for government bonds and investment grade.

At Henderson we still see opportunity in high yield, but our job will be mainly about protecting client capital in the months ahead.

The alternatives, the hedge fund industry has had a pretty tough time, it's been hard work, particularly given the low volatility we're seeing across all major asset classes and sentiments still are quite fragile, so it's been a struggle making good returns. Thankfully, many of our funds are doing much better than the industry.

On this slide we show you the industry flows for the first half. The first thing to note is that growth has returned well to our industry at large. Probably of most significance to us over this period has been the strong flow into European Equities, though as you can see, this is moderated in the second quarter.

So now let's turn to look at Henderson over this period.

As we told you in February, our strategy is all about growth and globalisation, and the last six months have been about investing to sustain the growth momentum over the next five years. Assuming reasonable market appreciation, we expect to be able to double our assets under management over that five-year period.

So when I look at a business like us, what do I see as the key drivers to achieving sustained return to shareholders? Firstly, the ability to deliver above industry net new money growth, making sure that you're delivering strong investment performance for your clients. You also need to continually invest in a business, particularly in areas such as client relationships, your investment management capabilities, and the global platform you operate. Despite that, you also have to show operational leverage as you grow, and have a disciplined use of the cash resources as these businesses are very cash generative. These are obviously early days, but today Roger and I will between us try and give you a sense of how we're doing against these criteria.

So let's turn to look at progress in the first half, starting with Henderson flows on a global basis.

So looking at total flows, you can see that our growth continues to be driven by our Retail client inflows, but also that our institutional business has switched from being insignificant outflow to being slightly positive. We're currently delivering annualised net new money growth to 15% per annum.

So what's driving these flows? Well, if you take as read the importance, obviously, of strong investment performance, and also having the right product mix for your clients, there are a couple of specific drivers I'll draw your attention to.

Firstly, half of the net flows that we're seeing were into funds either acquired with or managed by ex-Gartmore, and New Star managers. These two transactions were always financially compelling, but what you can now see is the benefit that they're giving in terms of strategic benefits for the Group and how much it's driving the growth of the business at the moment.

The second thing I'd highlight is the geographical diversity of our flows, which is different from the current asset under management make-up.

On the Retail side, our UK business performed really well in the last six months and is taking market share in what is a really key market for us. But despite the strong growth we're seeing, it's still only accounted for a third of all our flows, versus about half of the current assets under management in the global retail book of business we have. This points to the high level of growth that's being achieved in our SICAV offshore range, particularly in Europe and Latin America, as well as our US Retail business, our US Mutual Funds.

And in Institutional we have seen inflows in the first half from clients in the US, in Australia and in Japan. We're starting to see the broadening of our business from our traditional UK base.

One thing that is often overlooked is our ability to sell our regulated open-ended vehicles to institutional clients, so there is some noise in these numbers where institutional clients have really supported us, especially in the Absolute Return funds, so some of the Retail flows we show here are really sourced from institutional clients, though at the same margin as our retail clients.

So looking forward at the product pipeline, a couple of key themes emerge. Firstly, we've been looking to develop new capabilities, so, for example, over the half we've established the Emerging Market Corporate Bond, and also the Global Corporate Bond SICAVs, and we're balancing that with an extension of our existing strategies, mostly in the alternative space, so we're launching an offshore Cayman vehicle in the global long/short equity space. We're also looking at launching a global long/short UCITS Fund, as well as an International Opportunity long/short fund in the 40 Act space. It will be the first time we'll have a long/short equity fund in the US market. Bringing together a mix of new ideas and scaling up the existing strategies and capabilities is what we've been seeking to achieve over the last six months.

If I turn now to Institutional, in the Institutional business there's definitely a turnaround under way, though I would still say we're facing some headwinds. For the foreseeable future, we expect an annual outflow of around £700 million from mandates that are either in run-off or from maturing structured products. Added to this, we know that a couple of large clients are planning to restructure their portfolios as they implement Solvency II, which could lead to a change in the mix of required product as well as manager changes. These could be a positive or a negative for us.

However, we're also seeing good early signs of the growth we are confident we can achieve in our Institutional business in the medium to longer term. For example, Global Equities, which is run by Matt Beesley, is winning mandates ahead of reaching the key milestone of a three year track record. We announced in May that Matt had been awarded a $140 million mandate by SEI, and I'm delighted to be able to announce today that SEI has awarded us two additional mandates which funded in July.

A third driver has been a return to positive flows in our offshore Cayman domiciled Absolute Return funds. Over the last 12 months we have seen strong interest in our regulated UCITS Absolute Return funds, and it's great to see the offshore Cayman vehicles also now attracting flows.

At the moment, it's only small tickets but is going into a broader range of styles and is more evidence of a returning investor confidence, in particular towards these Alphagen equity long/short strategies, as well as in our agriculture business which has posted great numbers for a number of years now.

When it comes to investing in our Institutional business, we're making progress and building out our investment capacities and also our distribution reach. On the investment management side, in global equities we're starting to see returns now on the investments we made two years ago.

In the Multi-Asset side, we just yesterday announced John Harrison to join us a director in the team. He's joining us from UBS Global Asset Management where he was previously Head of Multi Asset over there.

In terms of global credit, as you recall, our US High Yield team has had a phenomenal start in regard to the investment performance, and we've recently expanded the team by adding investment grade capability over there.

In addition, we're expanding our overall global capability in credit by adding emerging market credit and hires have been underway there and the team being built out at the moment.

With the investments we are making on our investment capabilities it is also appropriate that we are now developing our distribution footprint to support this. So on distribution we've been building out the Pan Asian team and we've had new hires in Japan and it's pleasing to see the team over there winning their first mandate so far this year. Exploring interesting opportunities to expand our presence in Northern Europe as well, particularly in the Nordics and the Benelux. And in the US you'll see us build out the Institutional sales team there under the guidance of Nick Bauer, who will join is from Geneva Capital Management when that deal completes on the 1st October.

So all in all, we're putting in the groundwork now to ensure our Institutional business becomes a more substantial contributor to flows in the outer years of our five-year plan.

If I turn now and look at the Retail flows, we're experiencing a period where we are outgrowing the market. As you can see from the chart up here, there are always going to be swings from quarter to quarter, but I think if you look at the last 12 or 18 months it gives you a sense of the range of quarterly flows that we hope to achieve going forward.

Behind these flows are two significant drivers: diversification and also increasing scale. So if you look under diversification on this chart, what we're showing you here are the 12 funds that had net inflows of more than £100 million so far this year. And when you look at it, note the diversity both by the fund range, and also as well by the capability. Last year, for comparison, we had 20 funds in the full year that had net inflows that exceeded £100 million. We're also starting to build scale in our funds. So you can see on this chart it shows the funds under management that we have that have greater assets than £1 billion. These 13 funds contrast to where we were this time last year where we had nine funds at that level.

Henderson is well known for having a relatively large number of small specialist funds, so it's a good moment to point out that we're starting to build some quite interesting scale in our funds, which is important in an industry with a 'winner takes all' type market. Also, the new capabilities we're developing are ones that will be able to be multi-billion pounds in terms of capacity, moving us away from that specialist area that would have categorised Henderson of old.

In terms of investments, we're building scalable, globally relevant product, such as our Global Equity Income franchise, our Global Credit franchise, our Global High Yield business, Global long/short equity, as I mentioned earlier, and also Unconstrained Bond.

We've also been investing in our brand and are delighted with the early signs of success we're seeing since a re-launch we did in January. For example, the product pages we use on our website have tripled and we've won various awards, including the AIC Investment Trust Website of the Year.

Our product development is becoming increasingly client-driven, with client input now systematically built in to the product development process. This is clear evidence of the cultural change that's happening here at Henderson. We're definitely thinking bigger, more globally, and always with the client at the heart of everything we do.

So if we dig down deeper into some of the channels and look at our UK retail products, this is probably the area of the greatest sense of achievement, given the investments that we've made over the last five years. The second quarter built on the sales momentum we saw in 2013 and in the first quarter this year, with a whole wide range of products making significant contribution to flows.

So to demonstrate that, we show you here the first half flows by the core capabilities. The key products that we sold in the first half included the Henderson UK Property Trust, Henderson Cautious Managed, Henderson UK Absolute Return, Henderson European Focus, and Henderson Strategic Bond Funds. All these products cover the breadth of our capabilities.

As you know, the UK market is still dealing with the structural change triggered by the Retail Distribution Review. We have a very experienced team at Henderson, the majority of them brought in from New Star, and they have very long-standing client relationships and they've been navigating this changing landscape with great success. This is down to their ability to engage with key decision-makers, namely the discretionary fund managers, as well as the creators and marketeers of the model portfolios and the IFA community itself.

In terms of investment in the UK, it's really around backing our winners. So, for example, we're running an online campaign to make the Henderson Cautious Managed Fund, which was the second biggest selling fund for us in the first half. It is now over £1.8 billion in size, having more than doubled from when the fund came to us from the acquisition of Gartmore.

Chris Burvill's doing a brilliant job on investment performance in his first quartile on a one year, three year and five year basis. Our level of client engagement has never been higher, with our busiest ever month of client events occurring in May this year, and our consistency of commitment to our UK clients is the key to us sustaining the long-term relationships that we currently enjoy, and will also be the cornerstone of future success here.

If we look at the SICAV range, we did see a slowdown in the second quarter. This was driven by reduced client demand for Equities and Alternatives, counterbalanced to some extent by an uptick in Fixed Income, so mirroring what I showed you earlier at an industry level. That said, we still delivered net inflows into SICAVs of nearly £600m in the second quarter. What's driving the success of our SICAV range? I thought it would be useful to highlight a couple of factors. In Europe one size doesn't fit all, so our broad range of products is actually a distinct advantage. For example, if you take Germany, it pays to have a Euroland Fund rather than a pan-European product. Whilst in France, what we see is the client demand is more around the small cap offerings to complement the large cap funds that they typically buy from the local providers.

We're also seeing good growth from our global relationships, they're currently driving good flows into our Absolute Return Fund. But over time we are focused on moving from being seen as a niche supplier of absolute return offerings, to more one of global offerings, which will command a higher share of their client portfolios. Our SICAV range also sells well in Latin America, although the activity we saw was much stronger in the first quarter than the second quarter. In particular we're seeing good growth from the offshore channel there, and there is demand for strong risk adjusted returns, which our absolute return products are providing for clients there.

So where are we focusing our investment? The three areas I'd highlight are: Latin America; Italy; and Switzerland. In Latin America we're adding on-the-ground resource in Miami to support the offshore channel. In Italy we're adding a couple of people to build strategic partnerships with the IFA or the promitori network over there. And in Switzerland we've added resource in Geneva to support our global distribution relationships who are mainly centred there.

Turning to US Mutuals, the flows we saw at the beginning of this year were exceptional as investors reallocated away from cash and moved offshore, and in particular back to Europe. Over the last six months flows were driven by strong demand for European Equities from RIAs and the wirehouses, and we were delighted to see, according to Morningstar, that we were the biggest seller of European Equities in the period there. Given our strong investment performance and the asset growth we've seen in the Henderson European Focus Fund run by Stephen Peak, we announced to the market last month that we will soft close the fund to new shareholders by November in order to protect the performance for the existing clients. Looking to 2015, we expect new business diversification to occur in our US fund range as two funds, our Henderson All Asset Fund, and also the Henderson Dividend and Income Builder, will reach their three year track record and also receive Morningstar ratings.

So some key themes we are seeing the market in the US. Firstly, there is a continued diversification away from fixed income towards equities, and in particular income biased equities, which are supporting flows into our Global Equity Income franchise. Secondly, we continue to see assets being repositioned towards international equities, which has helped the flows to both our Henderson International Opportunities, and our Henderson European Focus Funds. Overall, our growth has been well above that of the underlying market, and whilst we still expect to gain market share, we expect it to be at a more moderate level from here.

On the investment side, we're investing by adding additional wholesalers on the West Coast, and also broadening our product range. Last year we launched two new funds, the High Yield Opportunities Fund, and the Henderson Unconstrained Bond Fund, and we have four funds scheduled for launch in the rest of this year, including our first Equity Long/Short Fund in a 40 Act fund wrapper, as well as a new fund from the Geneva team which will come as part of that acquisition.

Now when you look our performance charts you can see decent performance across the piece. Equities performance had suffered a bit on a one year basis as last year's winners paired back some of their strong gains. However, overall we're having a very good period of performance and some of our managers are delivering exceptional returns even in these markets. In particular I'd highlight John Bennett, whose large cap funds have navigated these markets very well.

Fixed income has been pretty steady, and it's good to note that our new recruits in the emerging markets and the high yield side, are starting to contribute valuable ideas to our global funds. It's really great to see how much the collaboration's from those new hires. In alternatives we also navigated the challenging markets pretty well, and two of our largest funds, AlphaGen Octanis and Volantis, are performing well ahead of peers. This was also recognised by winning the Best Overall Group at the 2014 Hedge Fund Review Awards, as well as winning three individual awards for best in category. We recognise that our core capability will not always perform equally, but the diversification we have in our range and which we continue to invest in as you see, provides me with confidence we can sustain good growth across all of these capabilities.

Before I conclude and hand over to Roger, I just want to spend a few moments on regulatory matters. As you can see, we are in the midst of implementing a whole slew of regulatory changes, with wide ranging impacts across our business. We're not complacent, but we do have the scale, the expertise and the track record, to be able to navigate these regulatory changes successfully. Most of the regulatory issues you can see here are in green, so whilst they are challenging, they're well underway within Henderson and will have minimal impact on us and our business.

The two challenges I would highlight are Solvency II and MiFID II. Solvency II, as I already mentioned, is highly significant for our insurance clients and may change their required product mix, so although it will have less of an impact on us, it will have a big impact on our clients and can therefore have a knock-on effect especially in regard to the products that they will need. The major unknown is MiFID II, which we now know may include pan-European unbundling of research with dealing commissions. My view is that we have a very long way to go before we reach clarity on this one, and it's really too early to be trying to draw any conclusions, particularly around the likely impact on our P&L.

To conclude, I am very pleased with the progress that we've made in the last six months really over a number of fronts. Investment performance is doing really, really well. We've also been gaining market share in the flows that we're seeing, and we're investing in growth exactly as we told we would in February, which will set us up well for the years ahead. I'm also really pleased with the quality of people we had joining the business over the last six months, the talent that we've been attracting has been phenomenal. And looking at markets, they've largely been supportive, and we're very happy with the level of client activity that we're seeing. I'll come back at the end to talk a little bit more about the outlook, but for now I'd like to hand over to Roger. Thank you.

Roger Thompson, Chief Financial Officer

Thanks Andrew. I'll start by looking at what's driven the rise in our underlying profit before tax compared to the first half of 2013, and I'll talk about each of these line items in more detail in the following slides. But in summary, the biggest driver behind the increase in our underlying profit is the growth in our core revenues, our management fees. This is the flow through, with a time delay of course, of four quarters of positive flows, as well as the positive investment performance. Performance fees were strong but down on an exceptional first half of 2013. JV income includes for the first time the inclusion of one quarter from our 40% share in TIAA-Henderson Real Estate. And as we've told you, we're investing in the business, the result being that our fixed compensation and our other expenses rise in line with the guidance we gave at year end. Our variable compensation increases given the strong forward looking indicators for the business, particularly flows, as well as new hires and the increased cost of share plans.

I'll now give you some more colour on these results. Looking at our income first, I'll talk about the key drivers of this year's result, and then point out a couple of things to bear in mind looking forward. Management fees rose 21% to £193.7m, driven by the flows that Andrew's just talked about, as well as investment returns. I'll show you later that our revenue margin has also moved up a little.

Given the strong investment return for our clients, performance fees were a pleasing £45.2m, but were lower than last year. Performance fees at Henderson should not be considered as a one-off item given the diversity of the book, as I'll show later, but irrespective represent only 17% of our income. Whilst management fees represent around three-quarters of our income and therefore performance fees the bulk of the remainder, it's worth saying a word or two about the line that we now call other income. The major component of this is our general administration charge. This is a charge to cover the administration costs of our UK products. We implemented a reduced rate in August 2013 to ensure that there was no over-recovery, and the flow through of this is what you're seeing driving the 4% decrease in this line year-on-year. This line is now effectively a recovery of a cost and you should expect to see it roughly flat going forwards. Moving down to look at income from associates and joint ventures, this now includes the share of the second quarter profits from TH Real Estate, which was £0.5m after some start-up costs. Within the JV the combined management team has made good progress on bedding down the new operational infrastructure, and is focused on growing the investment capabilities and distribution reach.

And on the subject of joint ventures, we've announced that we're selling our 50% holding in Intrinsic Cirilium to Old Mutual Wealth, which is expected to complete in the fourth quarter. This means that going into 2015 we'll lose our share of the net management fees from the JV, which were £2.2m in the first half, and in addition our share of the JV profits, which were £1.5m in the first half. And one final point to make sure you're aware of, the increase in finance income in the period was principally driven by seed capital gains of £1.6m. Given the uncertainty of producing these returns, I'd suggest we avoid modelling them looking forward, and I'd expect normal full year run rate finance income, excluding seed capital gains, to be around £7m.

Andrew's given you a lot of colour of what's driving the flows across the various segments of our business, and to complete the picture on management fees I wanted to look at two things: the AUM that drives the management fees; and the trends in the management fees. This slide shows the movements in our AUM in the first half, with Property broken out to show you the effects of the transactions that we completed on 1 April. A net £6.7bn comes out, with the AUM transferred to TIAA-Henderson Real Estate being replaced by our 40% share in the JV. Now remember, you need to back out that JV AUM when you calculate management fees and management fee margins, as that JV income comes through our P&L line in terms of after tax profit only. So the closing AUM on which to base your management fee calculations is the £69.5bn on the right hand side.

Now let's look at management fee margins. As you can see, our management fees have moved up slightly to 58 basis points. This is driven by a mixed shift towards Retail, and also within Retail sales of SICAVs and US Mutuals, which attract the higher fee margin than our UK range. I've split out here the fees for our Retail and Institutional businesses, which show that our retail margins have remained pretty constant over the last four years. That said, we continue to expect to see pricing pressure of around a basis point or two a year in our UK range over the next few years. We exit the half with a run rate of around 58 basis points, and would expect this to remain relatively stable for the remainder of the year.

Moving onto performance fees, you can see from this chart that we continue to earn performance fees from a wide spectrum of sources, albeit at a lower level of the first half of 2013 when markets were more buoyant. Compared to that outstanding first half of 2013, we saw lower performance fees in our SICAVs, UK OEICs and Investment Trusts, but saw good growth in our Offshore Absolute Return Fund ranges. The diversity of fees by strategy and product, provides us with confidence of the Group's ability to generate performance fees in the future.

So what is our expectation for the second half, a question you always ask. Well, the first half is usually higher than the second given the timing of crystallisation dates, so achieving around half of the first half level in the second half will be an excellent result. I know lots of you have asked for more information around performance fee generation, we've added a new slide in the appendix on page 53, which I hope will help.

Moving onto costs, the key message here is that we're doing exactly what we said we'd do in investing in the business. Our fixed staff costs are up 9%, tracking to be up 10% year-on-year, as we guided in February. This increase is principally down to new hires as we invest in the business to deliver on our growth ambitions. Our variable costs are up 18%, rewarding the strong leading indicators of our business flows and investment performance, and in addition our new hires have a variable comp impact, and our share price performance means that the P&L costs of our share schemes has risen.

Non-staff operating expenses are in line to be approximately £17m higher than 2013, as we guided in February. As a reminder, this is made up of £7m of one-off benefits that we saw in 2013, which will not recur, as well as £10m of investment spend in 2014 in areas such as marketing and technology as well as some volume related increases. For your information, within the first half non-staff operating expenses we recognised a £3m one-off benefit in the first half of last year, and in this half around a £1m one-off cost.

So what does this mean for our key ratios? Well as we've previously indicated, 2014 is a year around sustaining the growth in flows and revenues and investing for the future. The combination of that means that our margin at 35% and our compensation ratio at 44.6% stay pretty constant with where they were last year and are what you should expect to see for the full year this year, before expected improvements in the future.

In terms of EPS and dividend, I'll start from the underlying profit on continuing operations and work down the page. So discontinued operations, this shows the first quarter's profit from our Property business in 2014 before the transaction was completed, compared to two quarters of profit in the 2013 comparator. It's a little lower than we expected given some performance fees and transaction fees were not achieved.

Our underlying tax rate has increased to 14.1%, moving up towards the UK rate and the weighted average number of shares on a diluted basis increased by around £50m as the increase in our share price moved more schemes into a diluted position.

The combination of the higher tax rate and the number of shares caused a slight reduction in continuing underlying diluted EPS, and as Andrew's said, the Board's declared an interim dividend of 2.6 pence per share. And you'll remember that in the past we took a formulaic approach to the interim dividend, setting it at 30% of the prior year's full year dividend. So on the old basis the interim dividend would have been 2.4 pence, the board now sets the interim dividend on a forward looking basis, based on its view of the business performance and its momentum.

As an aside, don't assume that the percentage increase in the interim compared to last year is a good indicator of the full year dividend increase, it's also a result of the change in methodology.

So looking forward to the full year, Henderson will continue to pursue a progressive dividend policy and having rebuilt its dividend cover and its capital strength it will align its decision on the dividend with the performance of the business.

Turning to cash flow, we have strong free cash flow from our underlying business which more than offsets the payment of dividends to shareholders. We're putting more seed capital to work to support our strategic priorities, and for example have recently seeded total return bond funds in the US and Australia. And last but not least the June cash figure is boosted by the proceeds for the TH Real Estate transaction which will in part be used to fund the purchase of Geneva Capital.

I thought it would be useful to give you an update on that transaction and to reiterate its effect on our capital position. We're moving well towards completing the Geneva transaction on 1st October with strong client feedback and client consents one month in already above 40%. We're excited by the opportunities that lie ahead, as are our new colleagues in the US.

And in terms of our capital position you'll remember at the full year results I reminded you that we have a waiver in place until April 2016 which broadly means that we do not need to deduct acquisition related goodwill from our available capital, and I said that ex acquisitions, we'd be ready to meet our capital requirements without the waiver by the end of 2014. The Geneva transaction's pushed that back a little but not far and we still expect to be able to meet our capital requirements without recourse to the waiver at some point during '15.

So to conclude, I wanted to show you the timeline of the investments that we've made and are making in our business to achieve our stated goal of doubling our AUM over five years. Andrew's talked about the benefits we're seeing from the early investments in New Star and Gartmore, as well as starting to see flows into Global Equity following the investments we made there starting in 2012. We've made significant focused investments over the last two years which are unlikely to see much flow this year, but some of which should start to generate flow in revenue in 2015, and the others in the medium to long term delivering that leverage into the business that we need.

So in conclusion, this is a strong set of first half results for Henderson and we're positioning ourselves for significant revenue and profit growth in the medium to long term. I'll now hand back to Andrew.

Andrew Formica

Thank you, Roger. Just a few words from me by way of summary. This clearly is a good set of numbers and our business is performing well in both absolute and relative terms. Operationally our progress this year is bang in line with our expectations. We're investing as we said we would for organic growth in the years ahead and I'm delighted with Geneva to have found an acquisition here that will really accelerate our growth plans in the US. The market backdrop remains supportive and client activity levels are good. Flows in the first half of this year were strong and reflect a number of positives coinciding at once. You can see our investment performance, the return to European products and also a reweighting back to risk assets as examples.

If we look at July it has been consistent with the second quarter run rate. We now have the holidays approaching in August so things may slow down but I'd say given our investment performance and the product suite we have I remain confident that we can continue to deliver on the growth aspirations we have in the future.

At that point I'd like to pause and hand over to any questions. We'll start with any on the floor first. If you just wait for a microphone so you'll be picked up by those listening in and then we'll go to the operator for calls.

Question and Answer Session

Question 1

Arnaud Giblat, UBS

A couple of questions please. Firstly on your five year plan, you're targeting 6% to 8% flows, I was wondering if you could maybe break it down into three buckets: what proportion of those flows will come from the existing business without the investments; what proportion will come from your new fund launches and what proportion will come from your new geographies?

And secondly on management fee accretion, I'm wondering, given what you said about Institutional attracting flows from alternatives, from Global Equity, and outflows from Phoenix probably and other lower margin businesses could you give us maybe a bit more colour around what management fees the new flows are coming in at and the outflows are going out at?

Andrew Formica

So taking the breakdown flows, to try and predict where our flows will be over five years and then to break it down by products, new, old, unlaunched, unyet even thought about, is quite frankly something I couldn't do. I would say that to achieve the plan that we have everything is in the business today, so the first thing I'd say, this isn't based on hiring or building new capabilities, that in particular is driven now that we have announced the Geneva acquisition. That said, some of those capabilities, whether it's emerging market credit, whether it's high yield, whether it's the Geneva business, will still take a while before they deliver flows, so they may be at the back end of that. It will be a mix of existing products and also the new products.

It's fair to say any new fund you launch we don't have any expectations for flows really to come until after three years, and it's really three you start to see some traction, four you start to hope to get a pick up and five you start to get into the better sweet spot if you're delivering the right product and performance for that.

So I guess the way we look at it in terms of over the five year period is we can see good momentum and visibility of our existing product ranges and we know about the capacity in there and we're seeing what you're seeing in the first half and we believe that will carry through in ’14 and into ’15. Then what we’ve done is we’ve made a number of investments, and I think Roger’s slide was very good at showing you that, of where those investments have been made, whether it’s some of the investment capability such as Global Equities or High Yield or some of the geographies such as the Australian build out that would then sustain us or give us visibility in ’16, ’17 and ’18. It’s not saying what we’re seeing now can’t continue but if it doesn’t that’s where it will come through from.

We would expect that Institutional will drive a bigger proportion at the latter end of the period than they are at the moment, so even if Retail was to slow if you look at our Retail flows they’re well above what the industry’s doing in Retail, so we are definitely gaining market share in the core markets. So even if we’re seeing a slowing in Retail we’re still seeing it from a position of strength and we still believe we’ll take market share. So I’m not getting too worried about any sort of noise in the Retail numbers but Institutional you start to see that moving up.

You mentioned some of the outflows we’re seeing in there, I’d say that that period is probably more pronounced between ’14 and ’15 and then will lessen as particularly things like the structured products we’ll see, they’ll mature and then that’s it, and the run off we would see in some of our clients we’d expect to start to moderate. And you’re right that those outflows are at lower margin on average than the existing institutional margin.

To your point about what is the management fees for Institutional and how the mix is changing, on Retail we have great visibility because actually the Retail ranges are quite tight in terms of what we get on them. Institutional is a pretty broad church and the range within that is quite broad, from everything from our global equities and our hedge fund business is in there, earning obviously significant fees to enhance index products and some of our products earning in the sort of signal digit fees. So there’s a real mix, it’s really hard to give you an estimate, I think one of the reasons you did see an uplift in the institutional fee sort of half on half was driven by those outflows at lower margins and the inflows being at high margin, but to sort of say that’s going to trend and where it could go to, it’s probably too early to say because it just really depends what you sell and where you sell it at.

<u>Question 2</u>

Arun Melmane, Canaccord

When I look at your sort of five year target for where you think your AUM will get to and when I look at the Institutional, you sort of talk about Institutional coming in with the latter end of the five year, and then I look at your performance numbers over your core capabilities on the £74bn they look pretty strong, so what do you think the problem is with Institutional and how can that be fixed to get the flows in and why is it not pulling more of a weight in terms of the Group rather than Retail?

The second one I had was on the core capabilities in Retail you broke down what drove your flows and that was £900m, but you’ve got 1.8 odd billion in Retail, so where is the rest of it coming from, because I thought your core capabilities with high performance should generate more than 50% of the flows that come in so you must have something else in the AUM that are driving another £900m. Thank you.

Andrew Formica

I’ll let Roger look after the question on flows because I think that’s just because we’re only showing you the top funds and obviously we have a broad range, but I’ll let Roger just check that. In terms of what problem do we have with Institutional, I’d say really the issue has been, and we’ve spoken about this in the past, is that our Institutional business has really been non-existent in equities, our Equity business has been much more structured around retail propositions and retail managers, and in Fixed Income has been much more focused in the domestic UK market or really on regional in Europe.

We’ve had gaps in our Institutional range such as emerging markets which has been a big driver of client demand, so whilst you’re right, we’re getting very strong investment performance it hasn’t been in the areas that Institutional clients have typically been buying. We’ve been addressing that, I would say our global credit capability now is fantastic, but it’s still only been developed in the last sort of 18 months, it’s still going to take a while to really bed down.

That’s it, they are good, because I just actually came back from the Philadelphia office where our US high yield and investment grade team are based and the collaboration that they have with our European business, our UK team, is phenomenal and this is a business that will be a very big business, their numbers are great, they’re working well together. When you go and go through their process and how they’re doing it Institutional quality, it will get there. It’s just time and you’ve just got to keep showing the performance and showing that collaboration.

On Equities we’re developing Institutional grade product and Matt Beasley is probably a leading one in terms of the global equity capability, but also on the global equity income which typically Institutional clients haven’t bought income as much as Retail clients, but we’re starting to see some more interest in that and clearly the Geneva business is an Institutional business so GEC gives us US equity capability so we’ve got more in that space.

And then finally in the multi asset space, again our proposition was predominantly targeted at the Retail business and we’re now moving into the Institutional side. John Harrison joining from UBS Global Asset Management will really help because he’s very, very well known in the Institutional space. Rob Gambi, our CEO who came from UBS Asset Management, again very Institutional in terms of his background and the support he gives, so there’s a lot of investments we’re making in Institutional. I agree with you, we’ve got good product and our performance is good, it’s just a matter of time, which is why we sort of say we’re not going to see it necessarily in ’14, we’re starting to see evidence of it because we’re offsetting already outflows but it’s going to be a little longer. Do you want to add anything?

Roger Thompson

Yes, I’m not sure, let me give you a couple of facts and if I don’t cover it please come back. Looking at slide 17 on diversification, now that shows the largest funds, so there’s £14.2bn of flow out of around £4.6bn of Retail flows that’s coming from those 12 funds, so obviously you’ve got a few negatives as well, but that’s the biggest driver of Retail flow are those large funds.

And if you look in the appendix on slide 51 you can see how our flow is broken out by capability, so looking at the five capabilities we have it’s a pretty broad spread of those flows between capabilities. Does that cover?

<u>Question 3</u>

Peter Lenardos, RBC

Two questions, one on tax and one on performance. First on tax, how shall we think about the development of the tax rate going forward? Your overall tax rate remains well below the

UK statutory rate and as the business becomes increasingly towards the US federal and state taxes they are double the UK rate so how should we think about that developing?

And second on performance, I noticed that your one year number while still strong at 69% has come down from 78% outperforming since year end, just reasons for that, any concern that that trickles into the three year number. Thanks.

Roger Thompson

On tax, the tax rate of 14.1% for the first half, and we'd previously indicated we'd expect to move towards the UK rate over time. So, there is still some noise in those numbers. I can't predict exactly what it will be for the year; but the long-term trend is up towards the UK rate, which has obviously been decreasing anyway.

You're right, we're adding business in the higher tax jurisdictions, so the US and Australia primarily I would say. There is talk about the US tax rate coming down, so that would benefit us. But you're right, over the mix of that you would expect to see that tax rate increasing a little over time. But remember the biggest amount of our business is still here in the UK; our fund manager capabilities are primarily here in the UK. So, the durability of our business is driven by the UK rate and the way that our taxes are structured.

Andrew Formica

In terms of investment performance on the one year, does it bother me or concern me, not really. A lot of it is smaller midcaps have performed really well and given back. If you actually look at the major indices relative to active managers year-to-date, the major indices are often top quartile or even higher in terms of where they're performing. So on a peer group basis we're actually doing quite well. On an indices basis I think the indices are just having a period because most people have skewed away from some of the large cap and some of the defences that are doing well at the moment.

I don't think that market condition none of us are worried about either the stocks being or the market positioning that is happening. What you are seeing in the market is a pretty odd market in terms of share price returns based on the results that are coming through. So, people are picking up on the negatives always rather than maybe looking to the longer-term trends. And we are pretty comfortable on that. So, I don't think it will impact significantly the three-year numbers. Clearly our softening one-year number will drag that down a bit. But by and large it's nothing that I worry about. Actually what we're getting through the discussions that we're having with the PMs is actually greater conviction in the holdings that we've got. So, there is certainly no either fear or change happening in the portfolio mix it's absolutely being held throughout. And we're confident with the positioning, so I'm not worried.

<u>Question 4</u>

Neil Welch, Macquarie

I've got three questions. The first is on your point around Solvency II just to give us a sense of that, what sort of proportion of institutional assets do we need to think about that may reallocate? And maybe give us a sense of the margins around that? And just to be a little bit more positive, what are the product changes you've made ahead of that that would put you in a position to be net flow?

The second is in terms of the spread of business coming back into European asset classes, both credit and equities. To what extent can you give us some visibility how you feel international clients are still under-allocated to the European equities and European asset base? And particularly maybe whether you're seeing any signs of the European retail client allocating more to equities?

I'm afraid the third point, which is just on your capital plans. In view of the Geneva acquisition and your new dividend guidance could you give us an idea as to how much you feel that you can contribute to seed capital going forward, or whether the run-rate we're at the moment is realistic?

Andrew Formica

I'll pick up the first two and Roger can pick up on your capital question there.

In terms of Solvency II the biggest impact is the products that the insurance companies can hold that don't incur effectively a significant capital burden for them; which means their credit portfolios are more likely to move from relatively active or even semi active to much more buy and hold. And that's there. Once you go to buy and hold it tends to be who's best at it and who do we have the best relationship with. So, it tends to be a scale game. We have the capability to offer what they need, so there is no problem Henderson offering it. What you're more likely to see is a potential for consolidation of the managers that they have.

In terms of book of business for us it's not huge, you're talking less than £2bn as a total Group AUM, so it's not a big position. You're right that it could be a win, because actually I would say our investment performance is very, very strong in Fixed Income; the reputation we have with our clients in this space is very, very good. So, we could be someone who is seen as a winner in there. And that's why I'm saying at the moment it's too early to tell if you're a winner or loser. Even if you're a winner you're margins are likely to come down because the product set is going to be less active so it will be a lower fee. So, you might find you get volume growth offset by revenue decline on that. You should still probably get growth in it but it will be at a reduced rate.

Why we're just flagging it is it's a big issue for clients. And ultimately regulatory changes that affect our clients affect us, even if it doesn't require a lot of changes to what we do in terms of reporting and other things. So, that's why we were flagging that one.

In terms of what experience we're seeing in Europe, I think the industry chart we showed showing the second quarter was half the run-rate of first quarter, we definitely saw in the first quarter a sense of we're very underweight Europe and people just said we're too underweight, and they moved back in. And I would have said that took us not even halfway to normal weightings. So, you then continue to see weightings go back in. But the European earning season hasn't been great. Whilst earning downgrades of 2014 have slowed from what you were seeing at the back end of 2013, if you look at the results coming through they haven't been massively beating expectations, actually if anything they've probably by and large disappointed. So, those looking from outside, so the Americans or Asians, are probably having a bit of a pause in terms of the allocations they've done there.

For us as well, particularly in the US, given the strong growth we've seen in our European Focus Fund, having to sort of soft close that as well is always going to impact outflows in that regard.

The Europeans have been very supportive of Europe. It is now the quiet period; the Europeans are pretty much on holidays for the next four weeks so we will see a moderation in that. But actually the SICAVs, despite having a weaker period in the second quarter, still very strong. Overall the first half was the biggest business, and the biggest thing within that was the European.

Interestingly where we're also seeing is when people are getting worried about a slowdown in the equity side they're buying our absolute return products. So, they're seeing them as a good, more defensive equity play, whether it's our UK Absolute Return Fund or our European Alpha Plus Fund, which is the long-short fund. So, I think we've got a number of products that if you do get concerns over the equity growth they are actually positioned well to be able to capture concerns in that regard – which probably wasn't Henderson's strength before. We've built our fixed income side, we've built our absolute returns space, which will enable us to offset any sort of move away from very risk on assets.

Roger Thompson

In terms of capital, it's an important use of our capital. The Board approved an increase to our seed capital late last year. A lot of our seed capital in the past was used up with property and private equity, and over time some of that will come back. But we are increasing seed capital.

One of the other things is as we are launching more fixed income funds they tend to be bigger ticket and therefore require larger sizes of seed. So, we would expect to continue to increase. But it's very much a prioritised process and we monitor that very carefully as to when we expect to withdraw that money, and getting that out as quickly as we can in order to reinvest it.

Neil Welch

Any sort of quantum; if you could point us towards an annualised basis?

Roger Thompson

Low tens.

Question 5

Nitin Arora, HSBC

A couple of questions. Firstly again on the Institutional side. You talked a bit about the product development for the Institutional clients; could you talk a bit about where you stand in terms of distribution there? Which areas are strong for you and which are you looking to develop?

And then secondly, a bit more technical, you talked about tax rate moving towards the UK. Let's say if it goes up by a percent every year we're talking about 5% to 6% increase in the rate on an absolute basis. And then also if you could talk a bit around the share base payments because I see your share count continues to increase by 4% or 5% every year. What I'm wondering is if your PVD is up, let's say, 10% and you have 5% hit because of tax rate, 5% because of share count, you're in a situation where earnings remain stable. If you could talk a bit around that?

Andrew Formica

Just on your first point around the distribution investment we're making in Institutional: I'd say it's probably been the area that is last in the investments that we're making in Institutional, because there's no point having the distribution footprint unless you have the product capability and the product set right. So, having now done that for a number of years and been very happy with the progress we're making it's now important that we do put that distribution footprint in. You've seen that in Asia, for example, in Japan we've pretty much rebuilt the entire institutional sales team there we had a complete turnover of that in the last 18 months. I'm pleased to see they're now winning their first tickets down in that market. Australia has been a big push for us in the institutional market. Matt Gaden, Head of Distribution down there will be adding additional resource in the Institutional side to support him.

Turning to America, we've really only got about three people on the Institutional side on the ground over there. With the Geneva Capital acquisition we're going to take that, between resources that they have and resources that we have and adding additional resource, we'll take that up to nine. So, quite a big boost in there. And I mentioned earlier also looking in Europe, particularly around the Nordics, around Benelux and Nordics area is an area we'll be investing in.

In the UK we've got a really good team and footprint so we don't need to do any more there. It's really about getting that international footprint better. They are the main investments we're going to make.

I still think even making those investments we'll feel relatively light institutionally. But let's see some progress to that first and then add to it rather than go any more aggressive than that at this stage.

Roger Thompson

On the tax point, the guidance we've given in the past, which as I say still sticks, is pretty much – you're putting a number on it – but what we said is that we would expect to move more towards the UK rate but still stay below it over a period of time. I've commented on the increase in our business outside the UK as well in some higher tax jurisdictions. You're right we would expect it to move up. It's what we said before, we would still expect it to be the case.

In terms of share based payments we issue shares in line with the ABI guidelines. Some of those are starting to reach the upper ends and therefore we're buying more rather than issuing. So, that does cap out over a period of time. So, it's not exactly as you're saying you wouldn't expect to see that continue to increase. That does start to cap out.

Andrew Formica

Most likely from next year, given the review on the capital base and line we will likely move to all share purchase on market. So, I think that diluted effect that you've talked about in the last year or so is likely to be a current or historic problem, issue going forward

<u>Question 6</u>

Daniel Garrod, Barclays

A couple of questions around the disposal of the Intrinsic JV. You're losing about 7m of annualised total income from disposal of that; what is the contribution that that has made to your flows? Is it pretty immaterial as well? What are intentions around use of the proceeds from that disposal?

You made perhaps more of a noise around the Sesame JV, a couple of years ago I think, how is that progressing? What are your intentions there? What is the contribution of flows from that JV?

Andrew Formica

I'll pick up on Sesame and I'll let Roger go into detail about the numbers you're asking about on Intrinsic.

In Sesame we've heard the rumours that you've heard that Friend were looking to exit the business. My understanding is that that didn't proceed anywhere. We have a very strong relationship with them. That business is more embryonic than the Intrinsic business. The Intrinsic business actually came to us following the New Star acquisition, so it had been a longstanding relationship while the Sesame one was pretty much started from scratch last year. It is contributing flows to us and we have a very good relationship with them.

If they were to transfer or be sold from Friends to a competitor, like happened with Intrinsic, then we would have to re-evaluate it, as we did with Cirilium. However if they go to a different party who is also similar to where Friends are that don't have the asset management capability then it's a venture that would continue and flourish.

So, I think to speculate or think about it at this stage would just be wrong and not really fruitful. At the moment I don't believe they're looking at doing anything with that business.

On Intrinsic itself, do you want to go?

Roger Thompson

It's a successful fund range. If you look at the numbers in the UK then we're about £1.5bn of flow in the first half. The detail we've given you shows the top funds, none of those funds are Cirilium funds, so you can see that it's not major. I would describe it as a material percentage as opposed to a major one.

Daniel Garrod

And in terms of the use of proceeds?

Roger Thompson

In terms of use of proceeds: we're selling the business that will generate cash that's not a public amount but you're right the numbers that come out of our P&L there will be a relatively small amount from P&L gain that will add to our capital strength.

<u>Question 7</u>

Haley Tam, Citigroup

Can I ask a question about MiFID II? I know you do say that there's no consensus emerging on it yet could you give us an idea of what your thoughts are on it?

And perhaps linked, whether there are any operational changes that you have undertaken or are considering in response? Thank you.

Andrew Formica

Okay I thought it might have come from one of your other colleagues, rather than from Citi, but anyway. MiFID II is broad, 700-odd pages, there's a lot in it. Most of what's in it will have minimal impact for us so some disruptive, some of the REM stuff from that is just niggly. But clearly the biggest surprise was the dealing commissions and the reasons it was the biggest surprise was where it appeared which is as an inducement which no one was expecting. People have had debates on this as a conflict for interest.

We know for a long time now that the FCA has had in their view this as an issue. They've accepted the fact that the UK shouldn't go out on a limb on it, they wanted to get to a global solution, there is absolutely no way the Americans are going to pick this up, it's enshrined in law over there and trying to get their legislative agenda to even consider this won't happen. So the best the FCA could do would be to try and get a European consensus. And it appears that they've somehow got some sense of doing that.

How they've got it through the inducement side is odd. It created a number of real difficulties and challenges by doing it that way. A lot of the consultation papers which are public and you can see are really challenging that it shouldn't be in there. My understanding is some of the other regulators across Europe are also concerned on it, so I don't think Europe is unified on its position that ESMA is coming out on this. But I would also say that the FCA and ESMA are pretty clear that this is going to happen. So in their eyes it's going and it's about how you deal with it though I think we've got a lot of road to still cover before we go with it. And if it moved back into conflicts then I think it's an easier issue to deal with in some ways and if you look at the recent FCA guideline they put out a note, which in some ways was disappointing, because they showed many funds not meeting what they would see as the current criteria but they did show that several firms were at the level or about the level that they would expect.

Measuring ourselves against the criteria they set in there we come out very, very well in terms of how we already set regular budget for research for all of our teams, we've been bringing those budgets down year-on-year, those budgets do not move based on AUM, those budgets are a fixed, hard amount. We monitor it through the year, there's some deviation but once they hit certain levels we bring that down. So we've a very, very robust way of dealing with it already. I can understand the issue around from a client point of view of making sure it's in there that you are treating the clients' interests well, and I do believe you can do that through both transparency and proper robust processes.

I think the regime that they're proposing I don't believe that there's any proof at this stage that shows it will be any better, and actually could have any proof at this stage that shows it'll be any better and actually could have very significant detrimental impacts. For the industry it will create a very distinct disadvantage for the European asset management industry relative to global peers. For clients I'm not sure they get a better deal from this because actually the likelihood is that research will become more difficult to acquire. We will either bring it in-house or in terms of how we look to do it and I actually think there's a strength in the way that the research is currently pooled and delivered on.

And then finally from a company point of view research is likely to become more difficult for small and medium-sized companies which is only going to drive up their cost of capital, and therefore it's going to be more difficult for them and that's going to impact European growth overall.

So there's a number of consequences that can come from this but I don't believe anyone's done the full argument and the analysis on it and we just need to have that.

So I do think it's also a number of years away. MiFID II comes in 2017, I cannot see how the debate will be done and away in that time, but it's something that's going to evolve because it's clearly come out of not where we expected in the last month. My position's fairly clear I don't think it's the best thing for clients. I do think there are things the industry can do and I think Henderson is at the forefront of doing that and we absolutely engage with trade bodies to promote that and our other peers out there in terms of ways to improve the overall image and how we deal with this. If it comes in we'll just have to deal with it but at the moment it's too early for us to even say this is how we will definitively deal with it.

Question 8

Scott Olsen, UBS

Hi guys, I've just got a question on the management fee margin, I know you highlighted the improvement that you saw half 1 half, but just relative to that exit margin in December that you highlighted of 58bps it's still quite flat even though you've had close to £5bn of retail flow through the half; so I was just wondering if you could talk about the dynamics of the flow through the half, I see that the retail margin is flat but I thought there would be a more positive mix coming through?

Roger Thompson

That's true some of the flows are coming into our UK range are at the lower end of the fees that we get on the UK range so the Henderson UK Property Trust Cautious Managed which we've got strong flows, are at the lower end of our fee range on the UK range. So that dampens it a little bit.

The other thing is £5bn but we're talking about a £75bn book of business so it's a very gradual change. So there's a combination of things. As I say we're at 58bps, you're right we exited last year at around 58, we've obviously been adding on average at 58 and again that's a mix of things. Some of the Institutional business that we won came in at a lower fee and we're exiting the half at 58 as well. So I still would expect that to increase a small amount over time over the short term I should say, over the next year as we're continuing to expect the growth to be primarily through Retail before the Institutional growth that we've talked about. So I think there is upside potential from margin, that's the way we're going but I don't want to drive that figure up too high yet.

Andrew Formica

And just to add on the Henderson UK Property Fund which you'll see was the best-selling fund for us in the UK range, because that's sub advised to TH Real Estate we actually only see half of the management fee come into ours. So actually for a retail management fee it looks very light relative to the book of the business. So a combination of that obviously has an impact on that.

Scott Olsen

And then to some costs I know you've been quite clear on your expectations for ’14 I was just wondering beyond this to support the platform that you’re going to need to move towards this double AUM target are you expecting that cost growth has to remain at a relatively elevated level for the next couple of years after ’14 or can it fall back to more CPI type growth levels?

Roger Thompson

The biggest amounts of cost growth are investment and investment management capabilities. And the vast majority of those, as Andrew said, are in the house. Now we’re talking about adding the distribution in order to match that investment management capability and reap the benefits of it and adding distribution is onesies and twosies here and there. So it’s a much lower number.

The other area is in our platform and our platform here is a very global platform. There are things we’re continuing to do there but we do not need to do any major things in order to have a global platform for Henderson in order to double our AUM. So we will continue to see investment but it’s certain not an elevated level. That covers both the fixed staff costs and our other expenses. Variable comp will obviously move in line with the results.

<u>Question 9</u>

Nigel Pittaway, Citigroup

Hi guys, can I just pry a little bit further on to the operating margin first of all? I think what you said last year was that you’d encourage us to put in a similar operating margin number for ’14 as ’13, yet we obviously have had quite a fall in the first half ’14 relative to PCP. So can you maybe just make a few comments on that first of all please?

Roger Thompson

Yeah sure the first half of ’13 Nigel included that very dramatic or exceptional performance fee number which drove up the op. margin in the first half and also as I said included around £3m of one-off benefits in our other costs line. So the guidance was around the full-year, which was around 35% and that's where we are both in the first half of this year and as I've said where we would guide for the full year this year before increasing over time.

Andrew Formica

And I would add to that Nigel that what you saw as well in the first half if you look at the picture in terms of our flows in particular changed dramatically half-on-half. So the variable compensation we’d set aside in the first half was relatively light given the end result, what we achieved and that was why we made that up in the second half. So what you saw was quite a big swing in operating margin from first half to second half. What Roger’s saying is we’re expecting that the full year this year will be similar to the full year last year and actually the half-on-half shift should be much more the same rather than the pronounced moves you saw.

Nigel Pittaway

Right okay thanks for that. And also can we just be a little bit clearer on the way in which the share price actually impacts the variable staff cost, because I mean in second half ’13 obviously you said that was a material factor the share price was up 70%, this half it’s only up 8%, so are we right in thinking that the right number to look at is the 80% between June to June, or how is that flowing through?

Roger Thompson

So you’re right it’s the move in share price and relative share price and what’s that doing to the programmes that have been put in place over the last three years and that rise in share price year-on-year we were at a very different level in June 2013; there are a number of schemes which are now fully paying out which were not, or potentially were even at zero a year ago, so that’s what’s come through. Again so I would say that the vast majority of our schemes are now fully priced with the share price where it is now.

Does that help Nigel?

Nigel Pittaway

Yeah okay. And then just on the compensation ratio still I mean I think obviously you were saying that was going to be relatively flat and I see you've given more precise guidance but I thought that was on the basis that performance fees were pretty much at the same level in ’13? Can you just maybe comment on that?

Roger Thompson

So performance fees?

Nigel Pittaway

Performance fees were lower so I guess the question is performance fees are lower so why isn’t that being reflected in the comp ratio?

Roger Thompson

Yeah well our overall comp ratio you see is at 44.6%, our compensation ratio on performance fees is slightly higher it’s in the high 40s. So there is a small difference there on P Fees but it’s not a major difference it’s the difference between 44.6% and nearer 50%. So that doesn’t drive it as much as I think you're expecting Nigel.

Nigel Pittaway

Right okay, fair enough, thank you for that. And then just maybe finally just on the comments that were made on go forward margin one thing that is noticeable is the Institutional margin has come down a bit is that the impact of TH Real Estate? Is that basically what we’re seeing there or are there other things? I think the go forward was 33 at December, it’s 31 now.

Roger Thompson

No these numbers are on a continuing basis, Nigel, so it’s not the effect of TH Real Estate because that's stripped out of these numbers so this is the net effect.

Nigel Pittaway

Yeah but you've got a 40% share in there right?

Roger Thompson

No not in these numbers, no. So this excludes THRE as I said we just take that in as an after tax profit and that's why we're looking at the assets which we use for the management fee calculations is that £69.5bn as opposed to the full 74.

Nigel Pittaway

Yeah okay there's a footnote isn't there, okay? So it's not that. So what is it then sorry?

Roger Thompson

So it's the change in mix of business.

Andrew Formica - Closing Comments

Okay. Thank you for time today. If there are any further follow-up questions feel free to come to the team here under Miriam on the Investor Relations side but as you can see it's been a good half for Henderson. Investment performance continued well, flows and client activity remained strong and we expect to see momentum continue to support our ambitions in the rest of this year and into '15.

Thank you.