Henderson
GROUP PLC

Henderson Global Investors Interim Results

Thursday 30 July 2015

Andrew Formica, Chief Executive

Okay, we might make a start if it's okay. So welcome to Henderson's Interim Results, especially to those of you here in the room in the UK, and also those of us joining remotely from Australia, Europe and the US.

Today's agenda is up here now and what I'd like to do is take you through the first half results, looking in particular at investment performance and flows. Roger will then take you through the financials and talk in particular about the buyback we announced this morning. Finally, I'll talk to you about how we see the market backdrop, the regulatory environment and our outlook for the rest of the year.

So if I turn to our results in the first half, the highlights, the first thing I'd say is this has been a very strong set of numbers for Henderson. They show how well we're delivering on many fronts, and also confirm that we're on track to reach our long-term growth objectives that we set out 18 months ago.

Investment performance remains consistently strong with 83% of funds outperforming their peer group over three years. I'll say a little bit more on that in a bit more detail later. We also had net inflows of £5.6bn which is ahead of the £5bn we saw this time last year.

Assets under management are up 10% since June last year to just over £82bn. On a continuing basis, that is in other words, if we exclude our stake in TH Real Estate from last year's numbers, assets under management actually grew by 18%.

Underlying profit on continuing operations is up 29% and earnings per share are up 31%, - overall a fantastic result. The Board has declared an interim dividend of 3.1 pence per share.

As Roger will tell you in a little bit more detail later, we're launching a share buyback programme with an initial £25m to be completed by the end of this year. This reflects our current view of the best way to deploy excess capital for the benefit of our shareholders.

So let's now turn and look at the assets under management movement in a little bit more detail. So looking first at market and FX movement, this picture looked very different at the end of May compared to the end of June. As at the end of May we were just under £5bn positive in the period before market reversals in June wiped off £3.3bn. The unexpected UK Election result saw a bounce in sterling which was a key negative for us in the second quarter. Flows, by contrast, were consistently strong across both quarters, and I'll talk about this in more detail in a couple of slides.

To complete the picture I'll talk you through the disposals, transfers and acquisitions that we concluded in the first half. Our biggest disposal in the period was the sale of our 40% share in TH Real Estate which removed £5.7bn of assets over the period. We do retain exposure to the property market, firstly through our well regarded Global REIT team and also our very successful Henderson property OEIC which continues to be sub advised by TH Real Estate.

Also included under disposals is the previously disclosed departure of Richard Pease and his European Special Situations Fund. On the acquisition side we had the merger of the Old Mutual Property Fund into the Henderson UK Property OEIC and we increased our ownership of 90 West, our Sydney based global natural resource equity business, from 41% to full ownership.

The last piece of the acquisitions are Perennial Fixed Income and Perennial Growth Management which we announced in June and are on track to close in the fourth quarter. The reaction to these acquisitions has been universally positive, both the teams at PFI and PGM themselves, their clients, the research houses and consultants. Rob Adams and the team down in Sydney are hard at work building out the infrastructure needed to integrate both PFI and PGM, they've been recruiting sales people and also expanding our global operating platform to make sure it functions in Australia.

Overall, we're really excited about the opportunity that these acquisitions give to accelerate our growth plans in Australia and it also builds out our local investment management capability and to bring Henderson into contact with a much broader client base than we could have reached on our own.

So if we move on now to look at investment performance, the headline here is that performance remains very strong with 83% of our funds outperforming over three years, the same percentage when I showed this chart in February. On a one year basis we obviously can see bigger swings, 76% of funds outperformed, compared to 66% at the end of December. Fixed income is the area with a lower level of outperformance than we previously showed, the rates side of the business is still positioned for a rise in government bond yields, and also the Henderson Horizon European Corporate Bond Fund is more heavily weighted than its peers towards high yielding credit which meant that it suffered more than most in a second quarter reversal. In both areas the long-term track record remained very strong.

When I spoke about European Equities performance at the full year I said it's pretty much as good as it gets. Well, since then it's actually got a couple of percentage points better at both the one and three year numbers. As you know, it's asset management Nirvana to have really strong investment performance coincide with a period of strong client demand, and that is exactly what you're seeing in our business here at the moment.

This is also a good moment to move on and look at flows. You can see from this chart that we've delivered annualised net new money growth of 14% in the first half, and this is well ahead of the 6% to 8% per annum growth in new money that we'd hoped to achieve when we set out our 2018 strategic ambitions.

Retail flows over the ten quarters that are shown here have averaged £1.6bn and despite a slowdown that we saw in June we're still well above this level in the second quarter. So we'll look in a little bit more detail and start with institutional.

As you can see from the chart, institutional flows were solidly positive in both quarters, particularly in our UK business where we are competing really well. A trend we continue to benefit from is clients diversifying their existing fixed income exposure and reducing duration. We are working with existing clients to evolve their current mandates and are also seeing good interest and new mandate wins for styles such as our Multi-Asset Credit and Absolute Return Bond Funds.

Our activity with institutional clients continues to become more global and we have seen institutional flows in the first half in France, Scandinavia, Asia and the US as well as of course the UK. In the round the quality of our institutional business continues to improve. I should point out that we are seeing a higher level of client activity in fixed income mandates of late as clients seek to position themselves and their portfolios for an inevitable rise in interest rates. On one hand we're benefiting from this, with several of our strategies such as Multi-Asset Credit and Absolute Return bond doing well, but we're also seeing longstanding mandates being switched or reduced, regardless of strong performance and service. So this has led to a pick-up in gross flows but also in redemptions, although I would add that the direction of travel remains encouraging.

Moving on to look at UK retail, we were delighted to see our progress recognised a few weeks ago when *Investment Week*, probably the most influential publication for our UK client base, named us their Global Group of the Year. The citation referred to our strong fund performance, a growing brand recognition and strategic acquisitions that widen our investment skill set, which is a real testament to the hard work across multiple years and multiple teams here at Henderson.

The biggest category for net sales in the UK over the last two quarters has been alternatives as clients continue their search for income, and also strong risk adjusted returns. The Henderson UK Property OEIC remains a dominant contributor for us with no ill effects from the change in ownership structure at TH Real Estate. There were good flows too into Henderson UK Absolute Return, one of two Henderson best in class winners also at the *Investment Week* awards, the other being our Henderson European Focus Fund.

You can see on the chart that European Equities was negative in the second quarter, this was because we saw an outflow of just under £100m booked to the European Special Situations Fund just before Richard Pease's departure in June. It's really pleasing to note that the way we handled Richard's departure has been widely commended by our clients, giving them plenty of notice and therefore plenty of time to take the necessary decisions.

Overall in our UK business we're seeing strong gross sales, balanced with some profit taking after strong returns. With client demand strong in property, Absolute Return, European Equities and high yield we continue to be well positioned and to deliver net new money growth ahead of the market.

If we turn now to our SICAV range which is in its fourth consecutive year of positive flows we continue to generate net new money growth ahead of the industry with the diversity of our product range helping to sustain flows in periods like this when we see high levels of rotation between asset classes. European quantitative easing has clearly been a dominant driver in the period, but it's interesting to note that QE has driven flows into SICAVs from a broad range of clients from as far afield as Latin America and Asia. It's not just our product range that's globalising but it's also our client base.

Looking forward, the diversity of our product range should help sustain our SICAV flows even in volatile markets. We are starting to see client interest in new and developing styles over emerging markets and Japanese equities for example which are at their very early stages but will build even greater diversification in the longer term.

Last but not least let me turn now to US Mutuals. This has been a great couple of quarters for our US business in which our US team is justifiably proud of being within the top three active fund families, this is across all investment categories, not just the ones that we compete in, on two major dealer networks. On the right hand side of the chart I've repeated the information we showed you at the full year about when our newer US funds achieve their three year track records. Dividend and Income Builder which turns three at the end of August is already over the £50m assets under management mark and looks set to have a five star Morningstar rating when it hits that milestone and is in a very large conservative allocation category. As you can see from the slide, global equity income is already selling well and we're confident that Dividend and Income Builder will prove a really useful complement to that product.

Whilst we're looking at the US business I'll broaden out from our US Mutual flows to make a quick comment on progress at Geneva Capital Management. We closed the acquisition in October last year at a time when they were experiencing outflow and negative performance. I'm pleased to report there's been a substantial improvement in investment performance so far this year as their quality growth driven investment style returned to favour. Geneva is still in net outflow but outflows are slowing considerably. Consultant holds are coming off and we've been awarded our first new mandate since the acquisition in the small cap area where the pipeline is now starting to build.

We've been pleased ever since we closed the acquisition with the way Geneva and our existing US business have come together, and it's great to see the people and investment style we've bought into really starting to deliver. So in summary, our US business is travelling well and there's a lot more in the pipeline.

If you look at this slide it looks at flows from the perspective of our five core capabilities and proves an interesting snapshot of the development of each of our capabilities. As you'd expect, our strongest flows in the first half came from European Equities, what's interesting is the diversity within the European Equity space where the top five funds in terms of net sales are run by four different managers. I'd describe European Equities as our most complete business at this point.

Global Equities is still work in progress. Within this capability we have teams who are attracting strong client demand, a global equity income fund that I mentioned just before, international opportunities, also in the US Mutual space, and Henderson Cautious Managed here for the UK, but there's also a couple of funds where performance hasn't been as good, Henderson Horizon Global Property Fund and the Henderson Global Technology Funds have had a more difficult period of late. We've invested over the last few years to boost our global equities capability organically in Matt Beesley's team, the Asian team, headed by Andrew Gillan and the emerging markets team under Glen Finegan. Also through the acquisition of Geneva in the US and now Perennial in Australia.

The good news here is that Matt Beesley's performance has turned around and we're starting to get reverse enquiries in areas such as emerging markets far earlier than we would have expected.

Our fixed income business is adapting well as clients look to diversify their fixed income exposure. We saw strong flows into actively managed strategies, such as Henderson Horizon Euro Corporate Bond Fund and also the Henderson Strategic Bond Fund, as well as into the buy and hold institutional mandate we talked about at our full year results in February.

Our US High Yield Fund will hit its three year track record next year with excellent performance to date and we're also excited about the global credit funds that the team in Philadelphia have enabled us to now launch.

Multi-Asset is another business in transition with the UK retail joint ventures winding down, small outflows from our mature multi manager range and smaller inflows into the newer diversified range. The team are developing interesting propositions for both retail and institutional clients but there's still a way to go.

Last but not least the alternatives. This is a massive area of strength for Henderson and one which we continue to develop. The top selling fund in this capability was the Henderson Gartmore UK Absolute Return Fund followed by the Henderson UK Property OEIC, both of which had net flows of over £400m in the half.

I hope that gives you a flavour of the key strength, diversity and potential we see within our business.

To sum up my section, we're on track with the ambitious plan we put in place to grow and globalise our business. We're ahead of target on net new money growth and continue to gain market share in all of our major markets. Investment performance remains strong despite rocky markets of late. We're broadening our global reach, both through our acquisitions in the US and Australia and organically as our product line and our client base expand.

With that I'll hand over to Roger who'll take you through the financials and talk a little bit more about the deployment of capital.

Roger Thompson, Chief Financial Officer

Thanks Andrew, and welcome everyone. So building on the record flows and consistently strong investment performance which Andrew's just talked about I'm very pleased to report a 29% increase in underlying profit before tax in the first half of 2015.

The key number is the one at the top, the 19% increase in our management fees, driven principally by those strong flows. Performance fees and other income are also up. Income from associates and joint ventures has declined compared to the same time last year, reflecting the exit of the Intrinsic joint venture here in the UK, as well as reduced profits from TH Real Estate before we sold our 40% stake in June.

Finance income was boosted by a £9.1m gain on the seed capital we had invested in property funds, which we've now sold to TIAA-CREF. We had around £22m of seed capital in property, out of our seed capital budget of around £125m. This will now be re-invested in our core business.

Costs rose in line with guidance, and I'll talk about costs a little bit later in the presentation, but for now, let's stick with revenues and look at management fee margins.

As we signalled they would in February, our average management fee margins have fallen slightly in the first half, driven by a variety of factors. These include the increased volume of lower fee institutional business in the mix. For example, the big buy and hold mandate, which we told you about in February, and the ongoing roll-off of our Private Equity business. At 56.7bps, the blended management fee margin is higher than the 55bps pro forma that I talked about in February, primarily because of the strengths of our high margin retail equity business. It's pleasing to note that our retail margins, if you look in the middle of the chart, have stayed relatively constant for the last five years.

With the reductions due to the change in business mix that I talked about in February largely behind us, I'd expect margins to remain at a similar level for the full year, subject to markets and flows.

Moving on to performance fees: You can see that our performance fees continued to be earned from a wide variety of strategies and products, 32 different funds to be precise, which gives us confidence in their sustainability.

Performance fees accounted for 16% of our net fee income, a level of which we're very comfortable, particularly given the fact that a greater proportion of performance fees crystallised in the first half over the second.

We previously told you our performance fee bonus ratio is usually somewhere between a third and a half. We're at the top end of the range for this period because of the higher proportion of performance fees earned from the Long/Short as opposed to Long only styles. Also bear in mind that there's more Long/Short money than just shown in the Offshore Absolute Return funds here. The vast majority of performance fees from SICAVs are in Long only, and the entire UK OEICs performance fees are from the Long/Short strategies.

Now moving on to costs: Our fixed costs were up 11% compared to the first half of 2014 and I still expect an increase of 10% for the full year, in line with previous guidance. You'll remember that we said around 3% of this rise comes from the inclusion of Geneva, 3% from wage increases, and the remainder from the investments we made in 2014 and some limited investments this year.

Variable costs are up 19%. This is the outcome of our remuneration schemes rewarding the strong business results. In particular, those critically important elements of flows, which were better, investment performance strong, driving strong performance fees, which were higher particularly in Alternatives.

These very strong results explain why our variable compensation has risen more than other elements of our cost base. The last factor I'll mention here is the rise in our share price, which contributed around £3m or 4% to variable staff costs in the period.

Non-staff operating expenses were up 10% as we capitalised on the strong sales momentum and continued to build out our global infrastructure, in part to accommodate regulatory change. We're below our full year guidance for the first half and I expect our full year growth in this line to be no more than the 12% we signalled in our full year results, from the normalised 2014 level of £105.6m.

So to summarise, cost discipline continues to feature strongly in the way we run this business. There is sufficient discretion in our fixed and variable cost bases to allow us to make adjustments, if we need to, to respond to any changes in market or business conditions. But for now, it's pleasing to see the strong revenues outweighing cost growth, so we can start to deliver the operating leverage that I'm going to talk about now.

I've talked about what's driving the compensation ratio, so here I'm going to focus on the operating margin, and I'm really pleased that this has moved up by nearly a percent in the first half to 36.3%, driven principally by that strong top line growth. Bearing in mind that performance fees are weighted more towards the first half, and there's a little bit more to go in non-staff costs in the second half over the first, we'd expect operating margins to stay around this level for the full year. There's also no change to our guidance that we expect our operating margin to reach 40% over the course of our five year plan, markets permitting.

Moving further down the income statement, the lines I wanted to focus on in this slide are the tax rate, EPS and the dividend.

Our normalised tax rate for the first half was 13.3%, but without one-offs our normalised rate is 15.4%. This is consistent with our expectations, when we talked to you in February, when we said that our normalised rate could rise by as much as 250 basis points from the 13.4% that we reported in 2014.

In the second half of 2015 there could well be further one-offs. So I'd expect our full year tax rate to also come in around 13%. But I would reiterate that we continue to expect that changes in global tax policies, as well as our increased profits from higher tax jurisdictions, particularly in the US and Australia, will push up our tax rate over time, and I'll provide more insight on this with our full year results.

Earnings per share for the half were 8.9p, up 31%. This increase reflected a number of factors, the most significant being the increase in underlying profits, but also a lower tax rate, lower dilution from share schemes, and our decision in February to buy rather than issue shares to meet share scheme requirements.

In setting the interim dividend, we looked at EPS excluding the £9m one-off seed capital gains from the property funds that I mentioned earlier. On that basis, EPS rose to 8.1p, which led the Board to setting an interim dividend of 3.1p, up 19%.

Turning to cash and capital: You can see from this table that our net cash position continues to improve. Cash calls in the first half included the full year dividend and share purchases to satisfy share schemes. These were counterbalanced by operating profits and the proceeds from the sale of TH Real Estate. I'd expect operating cash generation for this year to follow a similar pattern to 2014, when three quarters of our operating cash was generated in the second half. Offsetting this will be the cash outflow when the Perennial transactions close in Australia. We'll likely re-invest the property seed capital into our core business, and we'll complete the buyback that we've announced today.

As far as future uses of cash are concerned, you'll remember that we've committed to pay our £150m of senior notes, when they fall due in March 2016, from our cash resources.

Now turning to look at our capital position: You'll remember that we're still operating under the waiver from consolidated supervision, which remains in place until April 2016. The numbers we're showing you here are internal calculations without the waiver and won't be officially sanctioned by the regulator until our May 2016 ICAAP is officially signed off.

You'll see that we've moved to a strong capital position during the first half, with the improvement driven principally by the first half profits and the sale of TH Real Estate. Note that the total capital figure that we've shown here also deducts the first half dividend and the share buyback.

So to end, I wanted to update you on our thinking about uses of capital in light of today's share buyback announcement. We're committed to the active management of our cash and capital resources, so what you won't see us doing is sitting on a cash pile or building a war chest.

When it comes to deploying capital, we'll look first at opportunities to invest organically in the growth of our business, or to invest in inorganic growth. When capital generation outweighs these options, we'll return surplus capital to investors.

You've seen us successfully invest organically in new investment teams and other parts of our business over the last few years, and we're delighted to have found acquisitions in Australia and the US to further accelerate our business. And I'm sure there will be more opportunity to invest in organic and inorganic growth in the future, but for now we've decided that this is the right time to initiate a buyback programme, given our strong business performance and position of capital strength. Accordingly, we intend to buy shares to the value of £25m across our UK and Australian listings by the end of this year.

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

Andrew Formica

Thank you, Roger. As we conclude, I thought it might be useful to spend a few minutes on how we see the market backdrop and the regulatory environment, before we talk about the outlook for the Group for the second half.

Talking to our investment managers, they are still fairly positive on markets, with the June reversal having corrected the overconfidence which built earlier in the year. Major western economies continued to stabilise and improve. In Europe, growth forecasts have withstood the test of Greece and continued to edge higher. This said, investor confidence remains fragile. There is significant implementation of risk in Greece, the market volatility caused by China, and the commodities markets and the spectre of interest rate rises from the US are all weighing on sentiment. It's this lingering sense of caution that could keep investors on the sideline in the third quarter.

Key themes in our discussions with clients include how to position for rate rises and the end to QE, as well as liquidity in fixed income more generally.

If we move on to the regulatory environment, our sense is that levels of engagement with the regulator across the asset management industry continue to increase, specifically here in Europe. We've taken steps already to make sure that we are resourced to respond to this increased level of scrutiny, so it's not surprising that around a quarter of the people we're expecting to add this year will be in risk and compliance roles.

As well as more active engagement with the regulator, regulatory change continues to consume significant amounts of time, effort and expertise within the Group. MiFID II is the largest of many projects underway at present and it has wide reaching effects across our business, from fee structures in Continental Europe, through the transaction reporting, and, of course, through research unbundling.

On the latter, the current state of play is that the publication of the Delegated Acts has now been delayed until September. Various European and international industry bodies continue to highlight the potential unintended consequences of research unbundling, and we have heard that the Commission may be becoming more active to the complexities involved in a

Europe-only implementation of this. Without the international support that would give, it will have a significant impact on the European markets and asset management industry.

While the position on research unbundling does remain unclear, we're pushing into implementation phase on most other elements of MiFID II, which takes us through to 2016.

Layer on top the Fair and Effective Markets Review, which is currently out to consultation, but possibly to be implemented in the same time scale as MiFID II, but there's also a slew of other programmes, whether it's UCITS V, the Market Abuse Directive II, and FATCA are being adopted on a global basis, all of which involves substantial project resource. From that you can get a pretty good sense of the mountain of regulatory change ahead of us in the asset management industry.

All in all, risk management activities are consuming an ever increasing proportion of management time. It is critical that our clients have confidence in the regulatory framework which governs our activities and we are committed to work with our regulators to make sure that this is the case.

I'll end by talking about the outlook for Henderson in the second half. Flows are increasing again in July after tough markets at the end of June, but we're conscious that lingering concern amongst investors during the Northern Hemisphere summer could lead to a quiet third quarter for the industry as a whole. This said, Henderson remains well positioned against this backdrop.

Our focus on active investment management is delivering excellent investment performance for our clients, as you clearly saw in the slides earlier. Our client base and product line are increasingly diverse and our brand recognition continues to strengthen. We're confident, but of course not complacent. The first half of 2015 has seen us continue to deliver on our strategy and we remain focused on delivering on our long-term goals.

With that, I'll go down to questions between Roger and I, and we'll start with the UK, the people here in London, before going to the lines.

<u>Question 1</u>

Daniel Garrod, Barclays

A couple of questions from me. Firstly, on the Q2 flows: can you provide any more colour – it looks like the alternatives is the main area of beneficiary of the Q2 flows – any more colour on what strategies are attracting that? And global equities suffered outflows, you're attributing that mainly to the blip in Beesley's performance; were there any other factors there?

Second question is around MiFID since you did mention it. Obviously there is an element of self-interest in the question. What are your own views around potentially CSA, super CSA agreements as being the solution to this? It looked like in the original ESMA proposals that the amount of permissions required from end clients at the buy side ruled out CSA as a solution. Are you seeing any movement on that point? Thank you.

Andrew Formica

Firstly, in terms of second quarter flows, as you said, strongly in alternatives. I would say, as I mentioned, the UK property was a component of that, but also our UK Absolute Return Fund under Ben Wallace and Luke Newman. That also had very strong flows in the SICAV range. And also our Pan European Alpha under John Bennett also had some very strong flows.

I think what you're seeing on alternatives there's a sort of twin effect that we're looking at there. On the property side it was really a diversification in yield play: people looking for the strong yield you continue to get from property. And in our Long/Short and hedge fund ranges it's really that lower volatility; bond-like characteristics but not from bond markets. That's been a big theme that people are looking to have a more lower risk investment in products. And that's really benefited those funds, which have excellent track records, not just in terms of the returns that they've delivered but also the capital preservations they've delivered in periods of difficult markets. And I think that's really well recognised. And that's been a strength for us and obviously was a strength of the Gartmore business that we acquired four years ago. And I think that's really helped power our position and reputation in that regard.

In terms of global equities, I mentioned the performance in global property securities and technology; so we saw some outflows in there. And it was really more a flat period really when you look at the flows rather than anything too negative, because the global equity income capability we're seeing has really been powering along and going very well.

And then some of the areas I mentioned last year, Matt Beesley's global equity product had had a tough year; it's having a much better year this year but we've yet to get to that point now of breakthrough numbers coming through. So I would describe global equities as a period of transition, and confident on the teams that had had some tough performance that they'll start to see some improvements. And I expect we will see global equities continue to move forward from us in that regard.

Your question around MiFID II and your own self-interest, I do think that if we do get a removal from or a sort of rollback in terms of where they're looking around unbundling, super CSAs will have to be the answer. If there is a change the industry is not going back to how it was; there will still be significant change in terms of unbundling, in terms of the ability to pay and what you're buying for. So I think the buy side and sell side are going to have to work together to be far more transparent to work out what you're paying for and how you pay for those.

What I see a shift in is the mechanism to pay for it: whether you have to pay hard or whether you can continue to pay for those services through revenues generated through dealing commissions, and CSA is a solution. But the industry as a whole is going to have to change anyway; it's just whether the transparency comes through leads to payments that are hard for the asset managers and then separately billed to clients, or paid through dealing commissions. It's still too early to say which of those effects; but I do think CSAs or some form of CSA, whatever you call it or however it's structured, will be the ultimate solution if bundling is still allowed.

<u>Question 2</u>

Hubert Lam, Bank of America Merrill Lynch

A couple of questions. Firstly in terms on non-comp costs, I think Roger said he expects it to grow 12% this year. I'm just wondering into 2016 how do you think that will develop in terms of cost; will it be similar or less going forward?

A second question is related to flows again. I guess on page 12, I'm just wondering how do you foresee that flow outlook over the next 12 or 18 months? Do you expect your global equity outflows to stabilise and to see it in inflows? And do you see that offsetting potentially slower growth in European equities?

Roger Thompson

On the non-comp the answer is it depends. There are some what I would call good costs in there. Our TPA costs are in there, which account for a large amount of it; and a lot of that is driven by AUM and transaction levels. The other areas are areas we've been investing in: so the technology to support the global business continues to be invested in; the technology to support the regulatory change that Andrew has talked about continues to be invested in. So, I think there will be an increase next year; it may reach double figures but certainly won't be more than this year.

Andrew Formica

In terms of global equities, I think I answered that question with Dan, I definitely expect to see that as a positive and strength for the business. We spent a lot of time building out areas in that business. I mentioned for example Glen Finegan and the emerging markets side there; the enquiries we're getting are well ahead of any expectations we'd have. So, as we look forward into 2016 and beyond I definitely see that as an important part of our business.

Geneva and what we're doing in the US there, we're just starting; consultants are taking off any on-hold recommendations and the like. We'll be adding with Australian acquisitions, which we think can add to us in a number of areas. So, overall I think this will be an area of strength for us as you look into '16 and beyond.

<u>Question 3</u>

Anil Sharma, Morgan Stanley

Just two questions please. The first, I'm just wondering how I should interpret the signalling effect of your buyback, because you've obviously done quite a number of successful small transactions. So, should I be assuming that M&A is kind of off the table in the short term and rebuilding the balance sheet and distributing is the way forward?

And then my second question was just on the operating margins. It just appears that 40% by three to five years out seems even more conservative, given what you're delivering; so I just wanted an update as to why you think the market progression would be so slow?

Andrew Formica

In terms of the signalling and the buyback and what it means for M&A well certainly I'd say at the moment, for this half, M&A we've announced what we're doing with Perennial; there's quite a lot of integration and for us to build out to get ready for that acquisition. It's due to close probably in November 2015, so there's a lot still to do. And for that, that's our focus.

As Roger went through in his slides, the way we look at it is: what can we invest in our own business? Well, to be fair we've done a pretty heavy level of investment over two or three years now, and I think you're seeing the benefits of that, and we're very happy with the level of investment in terms of products and teams and the performance coming through from them. We've done a number of acquisitions; they're going to keep us busy as we continue to build them out. So, it's unlikely that you'd see us do any acquisitions between now and the end of the year.

And on that basis the Board then said: well, we do have excess capital - if that's the view what shall we do? And that's why we've come to the share buyback. As we move into 2016 the Board will have a similar discussion: well are there further areas we need to invest in the business? Are there areas that actually adding seed capital to the products will help us? We've got sufficient seed capital given the return of the property money, but that may be different in 2016. There may be opportunities externally in terms of inorganic opportunities in that point, and we may feel in a position to be able to look at those.

I'd say again it's unlikely to be positioned in the UK marketplace. Our ambitions are to broaden out the global nature of our business. And if we were to do things it would be likely to be overseas. And having done something relatively substantial for the market in Australia that sort of probably means we won't do much down there, if at all, in the foreseeable future.

The US is an area of interest to us, but again we're happy with what we've got. There are some areas we could build out. But our big emphasis in the US in 2016 will be the Fixed Income team hitting a three-year track record. And their numbers are outstanding. So you wouldn't want to be doing something that runs a risk of damaging the ability to capture what we've invested in there; but that could be an area of alert for us.

And Asia has always been expensive for us. But with China, if it does go through a slowdown and valuations start to adjust, maybe that will become more attractive. It isn't there today, it may not be there in '16, but we're keeping alert for it.

In the absence of anything there then again we'd look for excess capital being generated, and if we have any excess capital share buyback could then be the preferred route. But we would assess our own internal opportunities first and in the absence of that what we're really saying is we don't see a need to hold anything over the Board's approved capital level and return that to shareholders.

Roger Thomson

I'll pick up the margin question. You need to go back to the full year results in '13: we talked about our strategy for the next five years of growing the business, globalising the business, and as a result of that doubling the AUM and where that went in terms of profit. And what we said was over that time period we would increase the profit to 40%; you wouldn't see any of that in 2014. You didn't. And that we would start to see it come through; it wasn't a J curve. So, we've done the best part of a percent, or I'm guiding towards the best part of a percent this year, so on that curve.

Could it be more than 40%? We've consistently said running a large and diversified global business there aren't many people who are consistently above 40% if they're investing in their business. And the other thing I've said is let's get to 40% first.

Question 4

Gurjit Kambo, JP Morgan

In terms of the US market you've seen phenomenal success there into the last few quarters in terms of flows. During Q3 and Q4 you saw some redemptions. Has the mix changed now? Because if I look at Q2 it looks like a much more broad mix of flows coming in from Europe, international and the other markets. So, is that a little bit more immune now if Europe was to have a significant wobble?

Andrew Formica

What I'd say about the US business is the area of probably biggest concern would be the European flows we've seen. We are I think the number one selling European manager in there in terms of our European equity product set. And the US can be fickle on that. Interestingly, we have seen in the past they can have some relatively big movements between their view of Europe, they actually stayed pretty solid during the Greece discussions; which would be quite an interesting test. So, in that sense the US has been fairly consistent on a daily basis, on a monthly basis and on a quarterly basis – the flows we're seeing are pretty solid.

I would say that at the moment it's still concentrated in three funds: International Opportunities, Global Equity Income and European Focus. All three great performance, really good brand awareness of those funds. I think we have franchises there which are solid franchises, so you're more driven by asset allocation views in the areas they're investing rather than us trying to build our brand. But it's still very concentrated.

So, really the story for us is building out the presence outside of those three areas. That's why Dividend & Income Builder is so important for us. Three-year track record and a five-star Morningstar rating, which you can do a track on to see how they come out, is a really good opportunity for us to build that business. We've got the US High Yield Fund coming in next year, which is top percentile at the moment over two, two and a half years; just to get to that three year track record that's going to have to be the trick for us.

We launched a new fund under Geneva in December. It's fantastic at the moment; it's in the mid-tier of top quartile at the moment, performing really well in a really big category. But it's going to take a little time to get that diversification.

What I would say is the point I made about being the top three in two broker dealer networks, that's an amazing statistic really when you think about those three funds compete in only probably 40% of US flows. The combined effect means we're in the top three for some of the largest networks out there. If we can start getting recognised in the other 60%, which a number of these products will put us into, then the opportunity is there because you're just building the brand. We are really well perceived there, not just in performance but also in the servicing and the way we approach the clients down there is seen as really refreshing, really, really positive.

So, the US market – a lot of people talk about Asia and its potential, and it is a huge potential – but to us I'm more excited about the potential in the US market from retail and then extending that into the institutional side, that could be a really, really big market for us.

If there are no further questions here in London we might go to the operator to take any questions that are on the call.

<u>Question 5</u>

Simon Fitzgerald, Evans and Partners

Just a first question for yourself, Roger. The finance income up to £15.3m, just given the utilisation of cash over the next half and then going into ’16, how should we think about that?

Roger Thompson

Now remember that includes the seed capital gains that I talked about of £9m so you should think about that as a one-off. The remainder of that, there's a little bit of traditional seed in our core business so that number I think I guided before is about £5m to £6m a year of normalised revenue plus some one-offs from seed.

Simon Fitzgerald

Sure and also Andrew the last time we spoke in regards to the Perennial growth business you mentioned that there was a largish client within Perennial growth in terms of equities. I'm just wondering if you'd had any discussions about consent with that client and when we might be able to align that £5.6bn actually going in there? When are you going to be at a stage where you’re going to be able to align that?

Andrew Formica

Well firstly, on the client feedback for both the fixed income side and the Perennial growth, client feedback has been overwhelmingly positive. It’s just been great feedback we’ve had. Recognition of the relationships, the teams, and the fun that Lee and Glen have directly with their clients, but also how well Matt Gaden and Rob Adams and what we’re trying to do down there is perceived.

So the combination of bringing it together has been really embraced by clients, research houses and consultants far better than I could have dreamt or hoped for. And that does include the Perennial growth clients where they’re really positive on the combination.

In terms of the consents, there’s a couple of things that have to happen. The biggest thing is because we’re actually only buying part of the Perennial businesses, we’re only buying the growth equity business and the fixed income business, we have to completely put in place a whole operating platform. We obviously already have that all the way down to Singapore, but extending it to the Australian marketplace. That takes a bit of time. We’re well advanced in what we need to do, but we have to have that in place.

Then we have to go out and effectively request for clients to sit there and move over both the funds into our regulated entity, and then for the segregated mandates, for their consent to move over.

That process will begin but really won’t begin until another month or so as we’re in a position to be able to demonstrate exactly from an operational point of view what they’ll move over to.

That’s why I’ll say that the deal is likely to close in November, that’s just because that’s the time you need to firstly be able to put in the infrastructure so that you can then answer clients' questions. So clients have got a lot of the information they need, but at the moment we need to be able to prove to them a lot of the things we're saying. That requires us to put that investment in place which we're now doing. So it's probably another couple of months away before we're in a strong position to say where the client acceptance will be. But given the strength of feedback we've seen, the research houses have been very positive, the platforms have been really encouraged by what we're doing, and the larger clients have just really been excited about the proposition.

I remain very, very encouraged and expect we'll have a very positive outcome there. But it's still too early to give you any feedback and we haven't yet approached clients formally for that acceptance.

Simon Fitzgerald

Just one final question on MiFID II. Where do you think the outcome is going to actually end up with this, particularly around those research budgets, and how do you think you actually would go by trying to bill back the clients in regards to that?

Andrew Formica

Simon, I probably can't say anything more about where I think it will go than what I gave in my notes because you're talking about political intervention, it's not just an economic argument, and you've got many diverse parties with quite divergent views. So I don't think Europe, for example, is aligned on what they're trying to do, so what outcome could come, you just don't know.

That said, I think we're well placed. Whether we have to unbundle, we could do it, we're in a position to do that, and if we didn't have to unbundle I think we're already meeting where most people would feel that the regulators could settle on if they settle on a retained bundled world, but enhanced CSAs we're already there. So I think operationally we'd be in a pretty good place and well ahead of others to get there.

In terms of the ability to go to clients on this, I think there is very strong argument that we'd be able to achieve a positive outcome in that regard. One of the discussion points that we've been having with the regulators through this topic is, if you do go this route you have to make a mechanism easier to do that, because what happens if one client opts in and one client opts out in a pooled fund, how do you do that? And I do think that if it does go down to an unbundled approach there will be mechanisms that make it relatively easy for you to approach clients on what you're charging and how you would do that, particularly on the retail funds or the unitised products. So I'd be hopeful that we could get to a position that it would be able to go and put in place a mechanism to deal with the client aspect of that should it come about. But until we know the rules, one of the issues with the previous drafts was they actually seemed in conflict, they're actually very difficult. When you actually went through them they were saying they're trying to clarify the position, we actually felt they made it more difficult to understand how you could physically do this. They recognise that, so whatever outcome does come in September, if it's unbundled or not, I also think there will be a mechanism that will simplify how you are to approach clients around getting agreement to talk to them. But at the moment we don't see the draft of the text so I can't give you a guidance of where I think it'll come down.

Question 6

Bryan Raymond, Macquarie

Could you just provide a bit more colour around your statement around the improving July outlook for flows, any sort of quantum or any asset classes benefiting materially, or any client bases that are responding favourably to any sort of macro steal? Is there any further info on that?

Andrew Formica

I don't want to go too much into just month by month numbers, but I'd say that July has been an encouraging month. We actually anticipate a relative slowdown. The July and August months are typically slow months because of the northern hemisphere summer holidays, and given the market uncertainty out there we anticipated quite a slowdown, and we still do for August, which is the more pronounced holiday period here. July's actually been a relatively normal month for us.

June saw, particularly our European client base given what was happening with Greece, much more cautious, so that was the area where you saw people sitting on their hands and not wanting to invest. Given the Greece position that they had got to by early to mid-July, the 10th July, you actually started to see people coming back to that, which I think was quite encouraging that we didn't see a wholesale get out sell in Greece which we did see when the Euro concern surfaced in 2012. So I actually think clients were quite moderate through the Greek discussions. And actually with our resolution, and I'll use resolution in a very loose term because I'm not sure we've got a true solution there. I think we've just kicked the can down the road. Clients have been quite positive in terms of coming back.

So I mentioned earlier the US continued to be positive for us pretty much through all of that period, we didn't really see much change at all. So US had been strong, and Europe was probably the area where there was caution and therefore sitting on their hands and they've returned for July. Institutional continued to see some okay wins for us, but as I've said there's a higher level of inflows but also some redemptions profile that's picked up. Institutional is a bit more lumpy, but I think it's just probably that July's been a normal month for us.

Bryan Raymond

Thanks for that. Then on the buyback and surplus capital position, how much of the £113m funds do you view as excess, i.e. above your internal kind of buffers that you'd need above your minimums? I'm just trying to get a bit of colour around the potential quantum of capital return, and if not capital return then how much you intend to really invest organically and inorganically? Obviously numbers would be great, but any further colour you can really give us around that as well?

Roger Thompson

I think what we've said before, Bryan, is that we're not going to give a single number as a buffer because we think that will change over time given our business risk in the markets etc. and the Board will look at that as a moving number, considering those aspects and other things. So I think the only thing I can say at this point is the Board obviously consider that we're at a position of capital strength at the moment in order to do a £25m share buyback.

Bryan Raymond

Right so we shouldn't look at this as an indicator that you've got further acquisition opportunities in the works, and I think Andrew mentioned earlier the US is a priority there. Because I'm looking at it as a proportion of the overall excess capital, or surplus capital, I should say, it's circa 22%, but it seems like you've still got a fair bit of firepower there to deploy either capital return or towards acquisitions or organic opportunities. You're saying that it's probably a bit early to assume that?

Roger Thompson

As I say, it's definitely too early to say that because these are our numbers as opposed to the numbers which the FCA will need to bless in our May 2016 ICAAP. It's definitely too early to say. When we talk about the capital requirement, that's the minimum capital requirement, and the Board will obviously want to hold some form of buffer above that, and quite rightly we've got some good conservatism in there, so I wouldn't get too carried away.

Then on M&A we've got a lot to be getting on with at the moment. We've invested in the business both organically and inorganically over the last couple of years. As Andrew said, we've got a lot of work to do to integrate the Perennial businesses in Australia, we'll continue to look for opportunities, but you shouldn't expect anything in the near future.

<u>Question 7</u>

Nigel Pittaway, Citigroup

Just a couple of questions. First of all, just on the management fee margin in your guidance for a similar level for full year, obviously there's a couple of small positives there with the Pease funds going from the denominator but still the revenue staying in the numerator, and also the John Laing AUM still I presume disappearing in the September quarter. Perennial obviously comes in in the fourth quarter. Is there anything else that we should think of in terms of what's happening there in the second half?

Roger Thompson

As I said, they're the big things. So when we talked about those items which would affect it, and when I talked about the 55 basis points at the year, they're the items that are still to play out. Sorry, they are the items and they have now largely played out. So there's very little. So from here it's really just down to where our net flows come in and the effect of markets. So the large effects are done, Nigel.

Nigel Pittaway

Okay, fair enough. Then just on the comment that obviously you've invested to build out the global infrastructure in part to accommodate regulatory change. Just in terms of those regulatory costs, are we basically seeing one-off increments now that enable you to get the compliance people on-board etc, then get you a little bit ahead of the curve in terms of regulatory change, or do you think that it's so uncertain that this increment's likely to go on?

Andrew Formica

I’d say that we’ve definitely had a step-up in regulatory and assurance costs. That is what we’re hoping to get us ahead of the curve rather than applying necessary catch-up. I think it will be at elevated levels for at least two years on the basis that just when you look at what I described and the timeline that projects go on for. That said, it will have to be in two years’ time when we say, “You know what, have we ...” There is a lot of that spend, it’s what I would call project spend, so it’s actually making sure the implementation of these projects and regulatory changes are done.

At the end of that period can those costs then be actually reduced and brought back, or does that just become the new norm? I think what we’ve seen in the banks is they always thought it was project spend but it’s becoming the new normal for them. So I’d be very reluctant to sit there and say at this point that you’re going to see that come back. Obviously I’d hope that that’s a potential, but I just can’t say where it’ll be. I think the regulatory agenda for asset managers has shifted towards us and that’s been an issue. So most of those roles we’re putting on are actually putting on as full time employees just because turnover’s been high and we feel it’s better for them to be in the business rather than using contractors as such to do it.

But I think there’s also a lot we can do about improving the system side of it which will hopefully in time make it more systemised and reduce some of the manual turnarounds. Because in the short-term when you get significant regulatory change what you’re doing to implement it quickly you need to throw bodies at it, have manual turnarounds until you can then implement it. So a lot of our programme as well is to try and codify what we have to do, which could see us shift and change and hopefully reduce the long-term cost burden on us in that regard. Nothing we’re seeing, I would say, should be any different to any other asset manager. This is the exposure that we’ve all got to deal with at the moment.

<u>Question 8</u>

David Humphreys, JCP

Good morning gentlemen. Two questions if I may. Firstly Andrew, thank you for the continuing description of what securing with commission unbundling, it’s quite fascinating in terms of how it’s evolving. Are you able to give us some kind of indication as to what the ultimate cost might be to your business from a sterling operating cost perspective?

Roger Thompson

We haven’t given that number and the answer to that is it depends because the regulation hasn’t been set at all and even unbundling doesn’t mean that it can't be charged to clients necessarily.

What we have done over the last few years is to continue to manage our research budgets very carefully. We’re spending considerably less on research now than we did three, four, five years ago so the number is significantly reduced. It is still obviously a significant number but again until the rules and regulations are actually written, how that comes about and whether anything will potentially go through our P&L, it’s too early to say.

Andrew Formica

And David I know everyone would like a hard number but the reality is I think it’s a dangerous number to put out. I think it could get interpreted different ways and the rules are so uncertain I just don’t see any benefit. Obviously we are spending time on it, we do think about the worst case scenarios and the like but given the rules are so uncertain in what we’re seeing we just don’t think it’s helpful. I hope that's okay?

David Humphreys

The second question I have is on your capital position, looking at your cash flow, and the amount that is being spent to purchase your own shares for share schemes, it’s a sizeable sum, given you still have 50m-odd of dilutive shares outstanding. How should we think about your capital position in light of you continuing to buy back your shares for those schemes?

Roger Thompson

The purchases used to capture to purchased shares in the first half- if you look at last year, the vast majority of that happens in the first half over the second half. Obviously we award bonuses in March/April and the vast majority of those shares to match that, are purchased in that time period. So I think about two thirds or three quarters of the share purchases were made in the first half last year and I’d expect a similar amount this year. So that will drive, so there's less use of that in the second half on that capital figure.

As I said the capital will grow in the second half through the growth of the business. There will be less use of those share schemes but we obviously need to include the Perennial transaction. So I’d expect our overall capital figure at the end of the year, including the Perennial transaction, to be at a slightly lower level, probably slightly less than £100m at the year-end.

<u>Question 9</u>

Scott Olsson, UBS

Morning guys I have one question on the compensation ratio, broadly flat on 14 at 44.5%. I know there's some impact of share price appreciation in there and it’s obviously rewarding another very good half of flows and investment performance, but I'm just wondering if those flows and performance trends continue, what are the prospects of bringing that down meaningfully? I think the target was to have it converge to that 40% operating margin over time?

Roger Thompson

Yes as we said, the compensation ratio is at the level it is because of the strong business results as you said flows, investment performance. The two one-offs in the first half are the performance fees which are higher in the first half than the second traditionally, given where the crystallisation of our performance fees are and the fact that the vast majority of those are in Long/Short money. So there's a higher compensation payout on performance fees, both in terms of quantum and the percentage payout on those. And the second bit as you've said is the share price move.

Outside of that then yes there's scale in our business as it comes through, but if we continue to deliver strong flows and strong investment performance we will want to continue to reward the people generating that.

Question 10

Ross Curran, CBA

Hi gents. A couple of quick questions, you mentioned that you needed to spend a bit of money getting your platform in Australia up to speed to be able to take the Perennial funds on, can you give us a feel for that investment and the ongoing spend that's required?

And then secondly will that platform be scalable? So how much more fund can you add to it on the platform you're putting in?

Andrew Formica

Yes I think Ross in terms of the numbers if you go back to the acquisition announcement we put in, we had some integration associated with that, that's the cost pretty much to put the platform in place and we also adjusted to give you a pro forma operating margin for that business, an EBIT margin for that business, which includes the costs and the ongoing charges. It is fair to say as well to your point about the scalability of it, we are building a full-scale platform down there so the ability for us to really drive significantly more assets through that platform is definitely there. That's how we're approaching this not just to bring those businesses on, but to actually build a total soup to nut sort of approach in terms of what we can get for establishing their product set but also as we increasingly bring existing Henderson capabilities into that marketplace. So it is being built to be very scalable.

Ross Curran

Can you make a comment at all on the cost of buying Australian fund managers versus say UK fund managers or US fund managers?

Andrew Formica

Well the Australian market at present is probably trading on higher multiples than certainly the UK is and more closer to it, but I'd say even above US peers so on a headline number that's what you'd say. I'd say the way we structured the Perennial deal and the price we paid there, we're comfortably below where US and UK are trading at the moment.

So we're very comfortable with that and it was in the range that we would see as acceptable I think. There's a number of asset managers in the Australian market that are trading considerably above ranges that we would typically look at, but in this case we were able to purchase it within the criteria we'd normally set and below where I'd say traditional, or current, market perception is for asset managers.

Ross Curran

And then finally, sorry I'm sure this is not material, but what's the Anglo-Sino consulting business you sold? I thought there was an Anglo-Sino business that was mentioned? Anglo-Sino Henderson Investment Consulting?

Roger Thompson

Yes that's an entity as part of the TH Real Estate transaction. Sorry for the confusion. It was a single entity that was set up to support the Chinese part of property which we've now sold into TH Real Estate.

<u>Question 11</u> (webcast question)

Stephen Scott, Contango Asset Management

"What do the recent awards typically mean in terms of AUM growth inflow?"

Andrew Formica

Well I'd say in the UK awards are more a recognition of what you've done rather than necessarily how you might look going forward, but I think it really cements the position that we've seen in the UK retail marketplace where we're definitely a top five player in terms of new business growth and the conversations we're having.

To have won the Investment Fund Manager of the Year Award, the Global Group Award, is a fantastic achievement. Before we bought New Star back in 2009 I think it would have only been a pipe dream for Henderson to have got to that position so to have done that within six years of that acquisition I think is a real boost, a real recognition of what we're doing. And to have also picked up two of the most prestigious awards UK Absolute Return and also the European category, again just demonstrates the breadth of what our offering is.

I would say that the feedback from clients and peers alike was universally positive on the back of it. Everyone felt it was a deserved award and I don't think the award itself means anything for future business, but I think the recognition of what's actually happened at Henderson really underlies what we're seeing in UK retail at the moment.

Closing Comments

And given that's the final question we had thank you all for your time today. As you can see greater numbers for us across the board in a number of areas but really the strategy we set out 18 months ago is demonstrable in these results about how well it's delivering.

We don't think this is as good as it gets, we think there is a lot more we can do in the business as the investments we've made over the last couple of years come on stream. Notwithstanding market volatility it's really pleasing to see how well we're doing against the industry and we hope to sustain that not just for the rest of this year but into '16 and '17.

If there are any further questions you have on the results the IR team here with Miriam is available to answer any questions, and also over the next month or two Roger and I will try and see as many shareholders as we can. So we'll look forward to catching up with you then.

And for those on the line in Australia thank you for not mentioning the cricket. Roger is much, much happier than I am at the moment.

Roger Thompson

For one day.

Andrew Formica

So let's hope we have a better showing in the next couple of hours. Thank you.