MAN Group plc

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Group Chief Executive

Well good morning everybody. Thank you for joining us once again for the Man Group results presentation. I'm going to start, take you through the business update, and then pass over to Kevin to deal with the financials.

I don't need to dwell, I don't think, on markets. But clearly we are seeing the most extraordinary market that any -- certainly any modern generation has witnessed, with what I describe as neck snapping volatility now across all asset classes, having moved from credit to equity, commodities and, more recently, currencies. And clearly our industry has been dramatically affected in terms of redemptions and negative performance across styles and forced deleveraging.

Now those factors, as you will have seen from our release and we will spend some time on the detail now, are not the factors that are directly affecting Man. So although we're not actually immune to markets, clearly, the robustness of the Man business model is worth spending a moment on, particularly at these times.

That robustness comes through sales momentum. You've seen that in the first half and continued, both guaranteed and open ended products. Obviously the wide geography of our asset rating which is defensive in terms of the cycle as it moves around the world, low levels of current redemptions, the variety of our investment styles which can perform cross-cycle and at different times and different market conditions, a continued access to funding, and we'll spend some time on that later as well, and a model which is not reliant on performance fee income to operate, invest or, indeed, reward staff. And that obviously is materially different from the hedge fund industry, and all, of course, providing stability in terms of management fee income.

The second factor that places us apart from the hedge fund industry generically is that we have capital, surplus regulatory capital which we have preserved.

And thirdly is our ability to adapt to changing market conditions, guaranteed or un-guaranteed products, more or less AHL, onshore or offshore, regulated or not.

Lastly, these markets will produce or provoke probably a reaction in terms of policy setting which will include changes and pressures from the regulator. The good thing, of course, about Man is that we have the capital scale and resources to address regulation because we're already heavily regulated in the markets that we operate in.

The investment banks who could compete with us historically in terms of structure and capabilities and access to markets have broadly pulled out of our section of the market for the foreseeable future. And open architecture for investment managers is back in force as even some of the banks that did have internal asset management capabilities have been liquidating those, or seeking to liquidate those to preserve capital in the parent company.

So the results summary. You've seen this. I'm not going to spend a lot of time on it. But just to quickly run through the main components. Clearly assets under management were down in the period ended September 30, to $67.6b. Net management fee, excluding the accelerated amortization associated with MGS, we'll come back to that, was actually up 2%, in line with the guidance that we gave at the pre-close. And performance fee was also down in line with the guidance that we gave at the pre-close.

EPS somewhat better than the guidance we gave in terms of the management fee component, again, if you add back the impact of the accelerated amortization for MGS.

As I mentioned earlier, we preserved substantial regulatory capital surplus in the period, maintained significant excess liquidity at all times, despite markets which are certainly a real life stress test for financial institutions.

We've maintained the dividend at constant in dollar terms to reflect that we do have capital. We did have a very positive accretion to capital as a result of the first half. We continue to build capital. But that does allow us to maintain the dividend in dollar terms. In fact, in sterling terms it's up around 30%. And that confidence in the strategic competitive positioning of the business is reflected there.

So let's go through the usual ladder, as it were, of funds under management, work through the moves in the first half. So looking first at sales. Private investor sales, as you can see from here, split fairly equally between open-ended and guaranteed. It's interesting actually that in high volatility markets the customer base segments itself into those that go for the guarantee to preserve capital, and those who go for open ended to give themselves the most liquidity. And clearly we can offer both those directions in terms of product offering and therefore capture both strands of demand.

Institutional sales momentum continued but at a lower run rate. So in the first half we saw and continue to see, I mentioned it in the outlook, some extending of timetables, some protracted decision making from institutions who are probably, on balance, going to wait until year end before they make significant investment decisions into any assets actually.

On redemptions, rates were consistent with the prior period. So in the first half really no material change in behaviour and redemptions from either the institution or the private investor. We'll talk about the outlook a little later on. So we had net inflows of $4.2b. And worth pausing here to note the stats on the top left of this slide that we had $4.2b of inflow in a period when the industry had $20b of outflow. So not only was our sign but our quantum was extraordinary against the industry.

In challenging markets, however, we did see negative performance. You can see it on the slide here, $5.9b of negative performance in the period, although some of that has now reversed. And currency swings at the end of September reduced FUM by $2.7b. We're the victim, obviously, of the translation impact of having assets and currency which are not denominated to dollars. And the recent strength of the dollar means that as you translate those back into dollars to give you a consolidated FUM number, it comes out at a lower dollar number.

We also had the beginnings of the de-gearing in MGS. I'll explain about that shortly. And we had some other moves there which is to do with the acquisition of Ore Hill, the account for the acquisition of Ore Hill, and about $300m of maturities in that FX and other -- so de-gearing and other, [inaudible].

The difference between the guidance we gave in the trading statement for FUM and the outcome is illustrated for you effectively here. What we saw was the last few days and last week, indeed, of September extraordinarily volatile environment, as I'm sure you all recall. And so the difference actually from the estimate to where we ended up is, as you can see from the slide, partly to do with investments, more to do with FX than anything else as the dollar moved dramatically in the last days of September.

Reconciling you from the $67.6b to the $61b estimate that we gave at the current level of FUM, those two factors have continued. It is entirely a function of foreign exchange moves as the dollar has continued to strengthen through October and into the beginning of November, and the MGS de-gear that we talked about and I'll address in the next couple of slides.

So this is not the current move. The October moves are actually a positive result of performance, sales and redemptions. We're not seeing outflows there. What we're suffering from is an FX move on translation and some decisions we've taken to de-gear the MGS product.

So a quick run through the managers before we come back to MGS. AHL has seen a positive year to date performance. It's moved rapidly to recover the dip that we saw in the summer when there were sharp reversals of markets. We've continued to invest in research and development, new strategies, new markets, new ways of trading.

And we're seeing good early results from the Oxford Man Institute we founded and established in conjunction with Oxford University last summer. And this work has all confirmed our view that we do have significant capacity to grow AHL whilst maintaining investment performance. And I'll come back to that and spend a slide on AHL later on too.

RMF has performed well on a relative basis to other fund of funds. But it is still down on the year to date. The relative outperformance of AHL has come largely from its investment bias towards managed futures which, as you've seen, had a strong period. RMF continues to focus on finding interesting, high quality sources of return to create product which suits regulatory fiscal requirements of institutions. We do indeed have an RMF and a Glenwood U-SIPP 3 product that we can offer and passport around Europe.

Glenwood has a more focused portfolio, performing broadly in line with the fund of funds industry. Did suffer in September around dislocations caused by political interventions by government policy changers which caused issues for the hedge fund community in September in particular. Glenwood is primarily sold alongside AHL, as I think you probably know, in the IP220 structures. And therefore it does not allocate to managed futures. By design, the managed futures combination is provided at the structured product level, not at the underlying manager level.

MGS products suffered from market volatility in the summer. They've been progressively de-gearing to reduce risk. And this process is something that I'll go through with you in the next slide.

And Ore Hill/Pemba, institutional credit manager. We hold 50% interest in that, as I think you're all familiar. In the summer we restructured the main fund to allow investors a choice to redeem faster and get liquidity or to lock up and to take advantage of longer-term opportunities in credit which we see and they see. Around 80% of the assets chose the lock-up in return for reduced fees.

So some detail on the MGS situation for you. Clearly this is the main news item, this and AHL. Positive news on AHL, negative news on MGS. Main news item of these results.

So, as you saw in the earlier AUM ladder slide, we began to de-gear MGS toward the end of our first half as volatility rose across markets in September, and risk levels in markets rose according. Since then, as you well know, markets have remained highly volatile. And so in October the investment committee took the decision to reduce risk further in the MGS product range by moving investment exposure largely into cash. Management action, not a forced action. It was our choice to do that. Sensible, pragmatic, de-risking of investor portfolios at times of market stress. That reduces risk. But it also reduces the firm's assets under management as the gearing comes out of the product.

Over the next two months or so the investment exposure will continue to run off. We've given you the numbers in the slides so that you can see how that will work. $3.5b of the de-gear having already come through at the beginning of November. So it's included in the countdown of assets to the $61b, the balance coming over the balance of the calendar year.

So whilst the move is clearly a reaction, a proactive reaction to extreme volatilities, it does achieve the following. Firstly, it protects the investor. The investor's capital is preserved. It remains a guarantee. The investor is not looking at capital impairment. The guarantee remains valid at the original investment. In fact, quite a lot of MGS product has lock-up, step-up guarantees, which actually means they have a capital guarantee of more than the original invested capital. So this is no disaster in terms of capital impairment to the investor.

The cash and treasuries that we hold -- was held by third parties to guarantee the return of capital to the investors, sit with third party custodians. They don't feature in our FUM because we don't charge fees on them. So outside our FUM sits a pot of assets which is there, held by third party banks, to secure the guarantees which those third party banks have provided to MGS investors. Just to remind you, we do not guarantee any of our products. Third party banks guarantee the products.

So third -- second thing to note is this has not been a consequence of withdrawal of funding from our banks. Indeed, we've stated in the release that the products are targeting a re-gear as markets stabilize. So funding remains available to re-gear MGS product as and when it's appropriate to do so.

Any that do not re-gear, and it'll be a very small number, will still offer the investor the guarantee. And indeed we will offer them a switch to another product, probably an AHL product given the environment that we're seeing which has been so positive for performance there at AHL.

The financial impact of this is obviously to prospectively reduce management fee income. So what we've done is accelerate the expensing of commissions, front-end commissions that were paid to intermediaries. We pay commissions, not the investor. We prepay them. And we write them off over a number of years. Kevin will take you through this. What we've chosen to do is accelerate the charge that would have gone through our P&L anyway. We're not writing off something because it's worthless. We're accelerating the amortization of a charge that would have gone through our P&L over the course of the next few years in any event.

We've written off accelerated $107m of that, which is about half of the total MGS commissions. And we haven't accelerated the balance because, as I said earlier, the products are targeting a re-gear of investment exposure as markets stabilize. No products outside MGS have been affected.

And, indeed, this process ought to show how effective guaranteed structured product can be. When actively managed it protects investor capital in, as I say, what are the most extraordinary markets. But it's only the MGS product range where that de-gear has operated at all.

So counterpoint to MGS is AHL. Of course it's been having a particularly strong performance in these current markets. Clearly, strong-trending markets, where we've seen those, have been helpful to all directional strategies, although the sharp reversals of the summer, as I mentioned earlier, did cause AHL and the industry generally, the managed futures industry, to give back performance. There's been a very strong rebound.

Timeframe. Some people are surprised by the speed of turnaround of AHL in terms of its underlying net positions. And that's because it does look at a series of timeframes. We've referred to them here as daily, weekly and monthly perspectives, which basically means that the net position of AHL can switch quite quickly if short-term trading signals changes from plus to negative and buy to sell effectively. So the net position changes actually more quickly than people think about.

In terms of the attribution of year to date performance for AHL, it's shown for the year down the right-hand side of this slide, with commodities and currencies, not surprisingly, playing the single biggest component of performance attribution. Stock indices are there. But it hasn't been the principal component. The bonds have been both positive and negative and, on balance over the period, slightly negative.

Trend following, unlike some other quantitative trading strategies, does have an inherent risk management process as part of the way it trades because it cuts loss making positions and runs profitable positions rather than running arbitrage strategies where you can run out of cash.

The other important thing is that AHL is dealing in highly liquid cash markets. So if you want a program that's performing well, that's highly liquid, that is totally transparent, managed futures is the only thing around at the moment that can offer you those three characteristics, which is why we're seeing strong demand for AHL content and product.

The other point about trend followings, it scales, it screens for volatility. So as volatility in markets increases, position size pulls back, even if they're profitable positions, because the risk -- the system is trying to take a risk based position, not a dollar nominal sized position.

Cash efficiency of AHL is of particularly advantage here. It means you don't need additional funding. You don't need to borrow from banks into an AHL product. And that obviously in the current environment is particularly appealing.

Our research in developing markets have combined to confirm that there is significant incremental capacity at AHL. Some positives here going forward, of course, also the likely momentum of OTC product being brought on exchange and cleared through clearing houses which would allow AHL and the industry generally to trade, for example, the CDS market which it currently can't because it's a bilateral OTC market and trend following doesn't work really on bilateral trades.

Very recent and very significant performance of AHL up in October across the platform of about 12% on a weighted basis. AHL is now only around 2% away from NAV highs. We'll come back to that as well. So really any material positive performance from here in AHL will see us earn performance fees in the second half.

To come back quickly through -- move through the other areas of assets under management and the moves. Left-hand pie shows the geography of the private investor in terms of assets under management. Importance of the Japan franchise still very evident here, reflects on a successful first half Japan launch. In the second half, not in these stats, but in the release, raised another $800m in Japan in an IP220 product. That's Glenwood and AHL combined in a guaranteed product offering. So we can sell significant amounts of money, even in what by anyone's standards are pretty horrible markets.

South East Asia component, you might note, those of you who follow this, has grown, reflecting strong sales in Hong Kong in the period, particularly of AHL content, guaranteed and open ended.

Other increases here, Germany, North America, interestingly, and the Middle East. Growing importance of the Benelux region on this slide is reflected in the fact that we announced at the full year we were opening an office in Holland.

Looking forward, we have a current IP220 launch in marketing and global marketing. We're seeing strong levels of interest in that, despite markets. And our Q4 launch, may be territorially rather than globally, is likely to have a guaranteed AHL component. The first time we've sold guaranteed AHL standalone format for some time. The reason that we've held back historically was concerns around capacity within AHL. As I've taken you through, those concerns are not any longer an impediment to our selling standalone AHL capacity given the work that we've done on AHL to ensure it can manage more assets satisfactorily in conformity with the investment returns for the investor base.

Institutional assets under management continue to have a strong Swiss component that reducing reliance of new markets have opened up for us, such as the UK, Italy, Benelux again. There's been interesting increased importance of North America coming through there as well, partly as a result of some direct asset raising we have, and partly as a result of the inclusion of the Ore Hill, half of the Ore Hill assets, and Ore Hill being a predominant US institutional asset manager.

Institutional investor run rate, the sales have slowed somewhat into October. Investors, a continuing theme from the summer, we talked about investors delaying the decision making process in light of markets.

Redemption experience for the private investor in our first half broadly unchanged from prior years, as you can see from the chart. Nature of the guarantee in our products tends to mean that people do not redeem at times of poorer performance because they have capital guarantees. They're not concerned about capital impairment. They tend not to cash in when out of the money on the track record options we run.

Institutional experience is more volatile given that we have larger amounts from fewer investors. Increase in our first half was primarily due to a redemption by one Swiss investor of all of its hedge fund of funds assets across all of its managers. That was about $800m. We talked about that in the pre-close trading update. That slightly increased institutional redemptions in our second quarter.

We have more visibility over institutional investor redemptions given that they, for the most part, have to give us 90 days' notice.

The right-hand bar chart shows the forward maturity ladder, demonstrates nothing significant there in terms of forward maturities for the next several years.

One of the strengths that you've heard us talk about before is the breadth of the product range and the blending we do of underlying managers to provide content that can perform across market cycles. Being diversified by content, we can create robust guaranteed products, such that even in markets which the Deputy Governor of the Bank of England described as possibly the greatest financial crisis in human history, I don't know if he's right or wrong, but it's certainly bad if he says that, our experience has been only a tiny portion of one of our managers has moved into cash and are not targeting a re-gear of the balance. So in the circumstances of these extraordinary markets, the robustness of the product offering I think comes through strongly.

Question of funding for guaranteed product is perhaps worth a moment to talk about. We do have alternatives to the guarantee structure which can operate in an environment of constrained bank funding. Principal route is through CPPI which is a dynamic margining arrangement which is much less cash intensive and than a straightforward guarantee. It's something which we're discussing with many of our financial institutions that support our product.

Additionally, we can just use highly cash efficient content, like AHL, either in standalone format or in guaranteed standalone AHL. And, indeed, as I mentioned, a product of that nature is already in the pipeline.

So the adaptability of the firm to address these changing market conditions is a function of that range of managed content, in-house structuring expertise that we have and those strong external relationships with funding counterparts.

The open ended product range appeals to investors who look for more focus without the need for capital preservation, but want more frequent liquidity. This component of the product range requires little or no leverage. And the core content is AHL and so, as you would expect, very attractive in current markets.

The institutional range is centred around RMF with its core satellite product tailored solutions, capability and extensive managed account platform. The transparency, funding opportunity and flexibility you get from a managed account platform is undoubtedly one of the big wins in the hedge fund sector. Man has, I am confident, the largest managed account platform of any investment management business in hedge funds. I think that is going to prove to be an extraordinarily powerful tool moving forward.

Confirmed capacity of AHL, by the way, also meaning that we are reopening some institutional AHL product for investors.

You'll be familiar with our long-term style bias to managed futures, illustrated by the bars on here. The blue is us. The dark blue is us. The light blue is the industry. Negative correlation to equities have long attracted us to the style. And AHL has grown to be the largest in the world.

In calendar year to date, this only goes up to September, but October would make this even more dramatic. It's the only liquid style to be positive. Only some directional macro-dedicated short sellers have made positive performance year to date.

Lack of any significant diversification benefits across hedge funds has impacted fund of funds generally, which is why they've all had a bit of a hard time. Interestingly, the dispersion of returns of fund of funds has widened around the means. So that tells you something. And it tells you that some fund of funds are adding value and some fund of funds are clearly not. Our net is well ahead of industry benchmarks, so on the right side of mean.

Second half outlook. We see continued sales momentum. Absolute and relative improvement in performance and attrition amongst the competition. On sales, I mentioned $800m sold into Asia in October. Phenomenal success. The global -- the current global launch looking very encouraging.

Private investor redemptions October and November, we know November because redemption notices are already in for November, slightly up in guaranteed products, but not materially. Up, as I mentioned earlier, in the open ended product. But you would expect some higher velocity there. And when the October numbers get absorbed in terms of performance, I would expect sales to move up for open ended as well, given that AHL is a core component of open ended products.

Investor run rate for institutions has slowed down a little, as I mentioned, in terms of sales process. But the opportunity for mandates has actually increased as competition has either fallen away completely or moved the wrong side of the dispersion around the mean for fund of funds. So there's some interesting opportunities for us, particularly in Europe at the moment there.

Performance for RMF and Glenwood is still slightly negative for October but, as I say, materially better in the case of RMF than for the industry. MGS range of products in line or better, for the MGS content as they de-gear. So whilst most of our managers, excluding AHL, all our managers, excluding AHL, are some way away from NAV highs and are therefore not likely to contribute to performance fees in the second half. AHL is on the cusp, as I mentioned, around 2% away. So any material move from AHL will see performance fees in the second half.

Wrap up with some themes to pull that together. They're all fairly clear. Performance is the key issue. Managed accounts will be required, in my opinion. And managed futures have again dominated the importance of their role in portfolios, and we have the largest in the world.

The industry will see assets shrink. Any many participants will fall away. Fund of funds dispersion around the mean will widen. It will mean performance, that dispersion performance will be more indicative of survival than fees because fees simply don't get you from one end of the dispersion range to the other.

Regulators will play an increasing role. That will favour institutions like Man who have capital scale and resources to embrace regulation. Indeed, to some extent for us it will level the playing field. We've been operating to a disadvantage in having to hold significant capital and resource ourselves for interaction with regulators globally. Others have not had to do that.

Highly leveraged return strategies will not be replicable in today's markets. In a lower leverage world, strong relationships with financial institutions will be crucial to getting access, priority access, to funding and cash. Efficient liquid strategies, like managed futures, will clearly be at a premium. Capital is going to be the key differentiator.

And so to sum up, we have at Man the attributes to gain market share. And certainly we keep our ambition to continue to lead the industry.

So I will stop there and let Kevin take you through some of the detail of the numbers.

Kevin Hayes

Finance Director

Thank you Peter. And good morning. What I'm planning to do this morning is pick up a few of the key themes that Peter's mentioned in his presentation, the robustness of our business model, our ability to adapt to the market downturn, how the changing environment has actually played to our strengths, and how these have shone through in our first half results.

So if we look at the first half results, gross management fees increased 13% to $1.1b, really reflecting the growth of funds under management. It represents -- our management -- gross management fee income represents a tremendously strong basis of the overall economics of the business. Gross performance fees were down 44%, reflecting the difficult performance environment.

Pre-tax income, net of the accelerated amortization of the MGS sales commission of 107, pre-tax profit continued to be very strong, with the exception of the performance fee component.

Profit after tax, $507m. And, as Peter mentioned, we have current dividend of $0.192 per share, which equates to around about $322m. In addition, during this first half, we repurchased shares at a total cost of $268m which was slightly -- which was about 1% accretive to EPS. So we've actually continued, while we have maintained our liquidity, we've maintained our significant excess capital, we are continuing to return significant cash flows to our investors.

The significant component of the economics in management fees demonstrates these are and continue to be very robust results for the first half.

Let me talk a little bit about margins. This is gross management fee margins. We have enhanced the disclosures again to actually give a further breakdown. There's a line, interest income earned from funds which we've broken out to give you some more clarity around the top line margins. And as you see from this, if you focus on the gross management fee margins before interest income from funds, at last year we were round about 429 basis points. As you recall, that included around about a 5 basis point effect for a small increase -- an increase in redemption fees that we'd earned as redemptions have picked up in the second half.

For the first half our management -- gross management fee margins were 421 basis points, so slightly down, although when we look forward to the sales that we were achieving, as Peter mentioned, in the global launches, we're seeing management fees in and around this kind of level.

Obviously we have, and we've talked about it before, an effect that may reduce margins if there was a significant shift to open-ended products, particularly in the AHL component, where as they don't have a structuring fee component in the open-ended product, the gross management fee margins would be slightly lower. However, they also have a lower cost of distribution.

We have also shown the net management fee margins there. However, let me come back to that because what we've done is we've increased and enhanced the disclosures around our expense base which is obviously the main driver of the difference between the gross and the net. We'll give you some more clarity about what is happening in the expense base in a few minutes.

Moving to the institutional investor gross management fees. The gross margin last year was in and around 100 basis points. We've seen some reduction in that down to 93 basis points first half. And as Peter mentioned, that really resulted -- the main effect there was the results of a large, long-term investor who had switched out of more higher margin institutional product into a fully diversified product, which obviously has a lower management fee.

And I think going forward we will see some continued negotiations with large investors coming in, particularly in 2009, and renegotiating some long-term contracts that have been in place.

Our RMF low data and low volatility approach is well suited to the current environment. And what we are seeing is the sale of more tailored portfolios which, as we've traditionally said, do garner higher margin compared to the fully diversified products. So we see some downward pressure on the fully diversified products continuing.

Let me switch to performance fees. In aggregate, net performance fees, that's after the component of compensation charge against performance fees, excluding the seed money investment gains and losses which we'll come back to, were $212m, of which AHL was the vast majority, at $178m of net performance fees.

We have previously talked about the use of our capital in developing new strategies, seeking out new sources of alpha. And we have a seed money portfolio that aggregated around about $1.2b. It's about -- it's been pretty consistent over the last couple of years. This is where we actually seed new managers and find new alpha. We seed new products for launch. And we also, on occasions, invest side by side with the large institutional investors as part of their investment program.

It is dedicated to develop new sources of alpha. And that reflects in new sources of that -- management fees and performance fees.

We do mark the portfolio to market, and are subject to gains and losses. These gains and losses go through performance fees. And for the first half there was loss of around about $89m on the portfolio. Compared to last year, we lost around about $59m for the full year. And I know that last -- at the last interims there was a question that had been asked about it, so we've given you some more clarity around that portfolio.

As you can see, it's spread amongst the various core investment managers. The grey area at the top is really the sales support, including BMI trade platform. That's actually been --

we continue to be quite successful seeing two way flows in a lot of the open ended products. And we have around about $100m of inventory dedicated to that platform.

Just completing out the results, sales commissions and the expense area, sales commissions increased slightly slower rate for the private investor, funds under management reflecting the higher growth of the open ended component. We have given some additional analysis with regards to compensation expense. We've split it between the variable component and the fixed component. We've also give you a split between management fees and performance fees.

With regards to the performance fee allocation, we generally trend towards about a 20% allocation on performance fees, with the balance going to management fees. So those focused on net management fees and net management fee margins, just to be aware, in an environment where performance fees are slightly lower, you do get a swing back of expense base just in that mechanical allocation to management fees.

As Peter mentioned, with regard to the accelerated amortization of the MGS sales commissions, this relates to the cash commissions previously paid to intermediaries to distribute the MGS private investor product. These commissions are capitalized. They appear on our balance sheet as the commission of intangible assets. And they're amortized over a period over which we receive the management fee income and sometimes the redemption fees if investors early redeem. Generally that amortization period is it approximates around about five years. It is amortized into income. And you've seen that in the commission line item.

As MGS is de-geared, the amount of fee income from some of those MGS products will not be sufficient to recover the full amount of that previously capitalized commission amount. And therefore we've accelerated into income that charge.

If you were to take that charge and look at it as far as how that would have previously been amortized in the P&L, it probably would have come in in and around two and half years, just to give you a sense of that. The remaining $100m of capitalized commissions on the MGS product, as we see that product perform and continue with trading capital, we have visibility around the management fee income and potential for redemption fee income which would support the continued amortization of that around about $100m balance.

Fixed compensation expenses increased with the increase in headcount as we've taken advantage of opportunities in the market to attract talented people with our very strong brand. The areas of growth in headcount generally has continued to be sales and marketing, investor services, and also building out the research platform in AHL.

The decrease in variable compensation reflects the fact that a significant component of our compensation is paid by way of bonuses and directly reflects the impact of performance.

Aggregate compensation trends -- compensation to revenue trends around about 21%. And that's been consistent with last year and the previous half.

Turning now to other costs. As I said, we've enhanced our disclosures around the other costs in the business. And just to highlight a couple of items. H1 2008 our total other cost base was around about $99m, H1 2009, $131m. So it has increased significantly. And we'll walk you through that. But compared to H2 2008 it was actually down slightly. Some part of that is charitable donation which is a formulaic approach based on performance fees. As performance fees drop, that contribution so reduces.

The red highlighted box around technology and consulting has been a focus to undertake a number of strategic technology projects to actually make our infrastructure more robust and allow us to continue to grow. Peter mentioned earlier the managed account platform which has in these markets, created a transparency for risk management, the investors, and also created funding efficiencies as we've been able to accumulate the funding requirements across the managed account platform.

So this is an area where we are investing. We are investing in the multi-manager platform which will allow for enhanced investor reporting and transparency for investment. And also we'll invest and continue to invest in the AHL execution platform.

We're doing this investment largely using short-term contractors and consultants. That's why we've grouped these two lines together. Again, it's a big part of our cost flexibility to ensure that as these projects are completed that cost then rolls off. So we are accessing the talent pool using short-term temporary consultants to undertake these developments, which continues to give our cost base flexibility.

Our business model is flexible and able to adapt to changing market conditions. We've maintained very tight controls on our expense base during this period. But we have the resources to invest. And we will continue to invest to grow out the platform and make the platform more robust.

Just a few other items further down in the income statement. Income from associates relates largely to our investment in BlueCrest which contributed $32m to net performance fees and $25m to net management fees.

With regard to Ore Hill, the two lines there, the gain on sale of Pemba which was the book gain on sale of Pemba into Ore Hill. And that has been offset by a -- what is called an impairment charge of around about $50m as we have adjusted the discount rate with relationship to the goodwill as part of that transaction. Discount rates obviously have increased in this market and that reflects that adjustment.

Net finance income, $20m. That compares to about $24m last year if you exclude the MF Global proceeds on which we earned interest income during the period prior to us distributing those funds.

The tax rate is around 18.5%. It's generally trended that way, and we think that that is a sustainable level. The only real effect that could increase that is if we become more profitable in the US or in jurisdictions where they have generally a higher tax rate than we currently have.

While total EPS reduced from $0.034 cents to $0.288 cents, the managed fee component still is very strong. That actually increased 13% to $0.262 cents. Return on equity, 21.4%. It was a decrease. That reflects the decrease in performance fees, and it also reflects the fact that our average equity has increased as we've retained significant excess capital.

If you turn to the balance sheet, the components of the balance sheet remain fairly consistent with previous periods. It continues to remain a highly liquid balance sheet. At September 30 we had cash and cash equivalents of $1.7b. Loans to funds, to assist in the rebalancing process were around about $641m. That has during the period averaged around about $1b. It is -- it turns on a regular basis as these funds rebalance, and redeemed from investors. That compares last year -- with last year's number of about $800m. So it's in and around about the same number.

The increase in that issuance reflects the issuance of both the hybrid that we issued and talked about at the last results presentation, but also we issued $250m off our medium-term note shelf.

With regard to capital resources, as Peter mentioned, we retained significant excess capital. This has now been retained for probably pretty close to the last two years, and through the entire turbulence in the market. It is a competitive advantage to us. It gives our investors a significant amount of comfort that we have this excess. The excess regulatory capital is around about $1.5b. Our excess economic capital is in and around about $1.7b.

With regard to liquidity and debt commitments, having access to capital and liquidity, and access to the capital markets is a competitive advantage. During this period we also were evaluated and rated by S&P, who assigned us an A- rating. This gives us more flexibility to access the capital markets, which is consistent with the disclosed strategy of diversifying our funded sources.

So in addition, during this first half, our committed facility, we were able to extend $1.9b of our committed facility out a further year to 2013 on the same terms as the original commitment, which means that we have funding at highly competitive rates versus the market.

Let me just wrap up. So to conclude, we've delivered robust results against an extraordinary market backdrop, demonstrating the strength of the business model, and I'll highlight again the significant component of management fees that we have. Although our performance fees show that we are not immune from the turbulence in the market, we remain well positioned, relative to the industry, and we see continued sales momentum, plus a broad set of products, and we see that will be the pipeline for the next six months.

Our high proportion of variable costs gives us a future amount of flexibility, but as we've demonstrated, we have an appetite in this market to continue to invest in building out robustness of the platform, in areas where we see significant competitive advantage going forward.

We still continue to see significant business opportunities, and we have -- and you have seen that in our Investment in People and Talent, as we continue to grow out, as clear differentiators of our franchise. Our capital strength remains very strong, and we have and we continue to have significant access to liquidity in these markets. And with that, I'll hand back to Peter.

Question and Answer Session

Peter Clarke

Thank you Kevin. Questions? We've taken a very thorough run through. There are a number of hands going up. I think Jason got his hand up first. Valerie, we're at the front, or Vicky. That's probably why you're sat at the front Jason.

Jason Streets - Evolution

I'd just like to check a couple of numbers and then ask a sensible question. The performance fees from Blue Crest were 32 or 22? I didn't quite get that? (multiple speakers).

Kevin Hayes

It's mainly the trend which is a similar strategy to AHL.

Jason Streets

Thanks. The second number I want to check was just again on the performance fees. You've put up a chart. We had $34m performance fees from MGS, $212m I think was the total, and $89m of seed losses. Does that mean I can calculate that AHL contributed $267m? Do I add, effectively $55m to the $212m?

Kevin Hayes

You are confusing me but the net performance fee chart on Page 22 --

Jason Streets

Yes.

Kevin Hayes

Just shows the performance of the various core investment managers. It does not take into account the (multiple speakers).

Jason Streets

So it comes down by the $89m?

Kevin Hayes

Yes, it comes down by the $89m.

Jason Streets

Great. Okay, then --

Kevin Hayes

Now, the $89m, just to be clear, the $89m, we did sell some non-core assets which were a gain of about $27m. You should net that off of the $89m. If you're looking at [inaudible] get back to the performance fees for headlines. If you're looking just at components that relate to the core investment manager and seed money, you'd exclude the $27m, just to be completely clear.

Jason Streets

Okay, the other -- the question is, on MGS, you've got comparable numbers, let's say $8b in other managers. You're reducing that to $1b. Does that mean that all those structured products are effectively becoming AHL?

Kevin Hayes

Well, your math is broadly correct. In other words, we said we're taking $7.5b out through the de-gear, and we start with $8.5b, so you end up with $1b. These are not precise numbers. They're estimations. The answer is, you will end up with a combination of things. If we do nothing to increase an AHL component, you would end up with cash and a small AHL component. If we increase the AHL component, you will end up with a lot more AHL in that product.

So that is going to come down to investment committee's decision at the time. So they will be left with liquidity and cash which can go either into underlying liquid strategies, which is currently where they are, or more into AHL. It's a decision to be taken nearer the time.

Jason Streets

But the actual -- if I'm -- well, they're all closed, these products, but if I were to go and buy one of these things, I would effectively be buying AHL plus cash?

Kevin Hayes

You would -- actually the cash -- the cash will not just be cash. There will be still some residual underlying investments in liquid MGS managers.

Jason Streets

Okay.

Kevin Hayes

But not a huge amount.

Jason Streets

But not a huge amount? So the question then is, and it's obviously the big question is, when will you consider pulling the money back? And secondly, will it go to new managers? Because it seems to me that one of the problems Man has always had is that really good managers generally don't want to come under your umbrella because you impose disciplines on them like sticking to what they say it is going to do. So in this market does it mean you can actually allocate money to new managers who are now perhaps desperate for some money, because the rest of their business has evaporated?

Peter Clarke

I think the point about the range of opportunity to allocate to it, historically you're right. MGS had a bias towards nascent managers, if not new. What's happened over the last, and it's not just the last month, but it's the last 18 months, is that mainstream developed managers are prepared to become and accommodate the terms that MGS is requesting, in order to have money allocated to them.

So AHL -- sorry, MGS does have the opportunity to allocate the mainstream funds, not just new start-ups, but actually just on the start-ups, we're going to go through a cycle here again. There's going to be a cycle of breakouts. This time it will be breakouts from hedge funds rather than breakouts from long only or prop desks. There will be a cycle on. There will be a moment where the new manager component will become interested again, but at the moment it probably goes in more established managers and AHL.

Jason Streets

And the timing of the re-gearing?

Peter Clarke

It depends on markets.

Jason Streets

But it could be as soon as January or?

Peter Clarke

Yes, absolutely, yes. And in terms of the AHL content, it could be quicker than that. It will depend on the investment management process. They obviously go through a discipline process to determine when to invest.

Jason Streets

And it's a question of volatility coming down?

Peter Clarke

It's a question of volatility coming down, and comfort from investment committee and to when to make those allocations. And what we're doing here, and perhaps an opportunity just to make this point very clearly again - what we've chosen to do is actively take an investment management set of decisions on behalf of our investors, which has reduced assets under management, and our primary obligation here is to our investors. We've taken that decision.

It has reduced assets under management, but we're doing that because we're an investment business, and if we don't do that we won't do that, we won't have a business. So it's clearly the right decision to take, albeit in the short-term with the peaks FUM.

The shareholders might recoil against that, but clearly it's the correct, in my view, the correct set of business decisions to take, and we've retained flexibility to the new investments. We've retained a client who's got capital protection and we've given them options to move into other investments and so on. That's the objective. Who was next? Oh Philip, you go.

Philip Middleton - Merrill Lynch

Thank you. Again on MGS, obviously full marks for transparency and pro-activity. Could you explain a couple of things? First of all, what percentage of capital do you think is liable to remain in the MGS products? You've effectively taken a half of the front end -- written off half of the front end. Is that a rough approximation to what you think will remain in the money you've de-geared?

Secondly, why have you chosen this two step process when you're happy to remain exposed to, say, the RMF styles and the Glenwood styles, which again are diversified, more diversified? And just basically those two.

Peter Clarke

Okay. On the first point, clearly it is a judgment as to what's appropriate, but I think Kevin pointed out in his section of the presentation, you don't -- you don't make the decision across MGS as a whole. You make it product by product. So although we talk about MGS as homogenous, there's a range of different products and a range of different content, a range of different levels of trading capital. So you just work backwards from that to get to the answer.

In terms of the RMF and Glenwood allocations, Glenwood forms part of IP220. What you have to bear in mind is that you've got a very liquid component of AHL, a big piece of AHL in the IP220 products. They therefore have a higher degree of liquidity and more trading capital because they require less leverage because of the AHL component.

RMF of course is different. RMF is a relatively small part of our private investor structured products -- guaranteed products, but obviously a large institutional piece, which runs on a different metric clearly. So where we felt it was appropriate given the content within MGS and the trading capital, we de-geared. Where we have sufficient liquidity and the option to keep money in the markets, we've kept money in the markets. It's not a -- it's a translate in that sense. The balance of product remains fully deployed.

Philip Middleton

So the key point here is what you've actually decided to do is make sure that all of your products have a certain level of liquidity, and the MGS products, because of the underlying managers, that required this action in the [inaudible]?

Peter Clarke

Correct, yes.

Philip Middleton

Thank you very much.

Peter Clarke

Yes, and that's obviously a prudent thing to do in these markets.

From the floor

Yes. Hi. Can you expand on the work you've done with Oxford in terms of the trading strategy for AHL, because obviously you're quite keen on pushing a lot more product into AHL, and realistically what the conclusions are in terms of future capacity?

Peter Clarke

The Oxford Institute has yielded early gains, as I said. Some of that is people, and some of that is research. People as in people moving into our Oxford laboratory rather than necessarily coming to the -- that should be key to work. The research has helped in terms of market access, and it's studying around market behaviour as much as it is around trading systems. So it's given us the confidence that the current markets continue to behave in a way that AHL couldn't adjust for.

Let me express in another way. In other words, AHL doesn't need to adjust its model, in view of what we're seeing. In terms of the capacity for AHL, it's fair to say that over time, and over a couple of years or so, we believe that in the right format of product, AHL could manage twice as much money as it manages today, and that will be a mix of private investor and institutional money.

Haley Tam - Citigroup

Thank you, it's Haley Tam from Citigroup. I've got a couple of quick questions on MGS please. Just to clarify, are you saying to us now that all of the MGS guaranteed products are now reliant on the guarantee at this point, so they're all written?

Kevin Hayes

No.

Haley Tam

No?

Kevin Hayes

Well, it depends what you mean by reliant on the guarantees. They're -- the vast majority of MGS products are targeting a re-gear, so they have sufficient trading capital to get back into the market, gear up, and give client investment exposure. A very small number of them - we're talking about a few percentage points, are unlikely to re-gear, and those investors will be given the option to switch into another Man product, as I indicated.

Haley Tam

Okay, and in terms of this re-gearing, so we can get a feel for how much of this actually could be into AHL, I seem to recall that some of the MGS products were sold with the option in the structure to go into AHL, and others weren't. Could you give us some idea of what the mix is there?

Kevin Hayes

Well, the prospectus -- obviously we're looking at this carefully. The prospectuses do generally indicate the sort of balance that the underlying investment exposure will reflect. In most of those it's fairly discretionary, actually, and so we would have the ability to go more overweight, something like AHL if we thought it made sense, but we clearly have to have a regard to what the investor bought as a product.

So if we don't feel we can comfortably get enough AHL into a product and we thought that was the right thing to do, we would offer the investor a chance to switch to a higher AHL content product, like IP220. So I think we have the flexibility either to adjust the investment content or to say to the investor, look, if it's AHL you want, switch into this product, and we'll give them a fee free switch, so we're not trying to make money from the switch. Obviously it's in our interests to preserve them in a product going forward.

Haley Tam

And one last question. On Slide 13, you give the breakdown of guaranteed products and when they're maturing. Obviously the MGS number had been moving because we're de-levelling that as I speak. Could you give us some idea of how much of that is MGS in each year?

Peter Clarke

Kevin do you know the answer to that? I -- your question is really -- your fundamental question is have we adjusted this chart -- this chart to the de-gear? Yes, we have, so the answer is yes, so there can't be much MGS that will be a significant adjustment.

Andrew Mitchell - Fox-Pitt

It's Andrew Mitchell from Fox-Pitt. On MGS, just a further question. I've probably laboured under the misapprehension that previously the de-gearing option was a formulaic mechanism, so obviously it appears that you've intervened, so in a sense, people are not getting quite what they want -- what they expected, although hopefully good for them.

And I wondered, second point on MGS, can you give any indication of what the potential signs of a re-gear might be, because obviously there are lots of different options suggesting the way in which you could go, but can you give us any sense of what that might be?

And then on an unrelated point, obviously the institutional fee margin is eroding somewhat. Is there any sense you can give us of what the new incoming rate would be would be new negotiations so we can get a scale idea on that?

Peter Clarke

Okay, firstly you're right in terms of structured product. All our structured product has a mechanical, if you like, concert of de-gear component to it, which is part of the risk management to protect investor capital. That doesn't mean that we go home and all go to sleep.

In markets like this, clearly you make judgments about whether or not to take pre-emptive investment management decisions, and that is what we've done. We've looked product by product, through the MGS component, looked at is trading capital, looked at its exposure, looked at the underlying strategies, the performance of those underlying strategies, and taken the view as to whether we should de-risk ahead of the mechanical de-gear, and the answer is, that's the decision we've taken to do that.

In terms of the likely size of any re-gear, it really is impossible to say. The important thing is that the capability to re-gear is there. So the banks -- we've still got lines. We've still got managed accounts. You -- they are capable of re-gearing. The choice will be ours.

I suspect if performance in AHL continues, AHL is going to be our prime candidate for that. It maintains liquidity and gives performance options in this environment. But there are a number of underlying strategies that we could use too.

But it's nothing -- there's nothing technically to prevent those products re-gearing back to the level, or close to the level they were at before, but it's going to happen slowly. It could happen, so I'm not sure of getting straight back there at any point, but it will happen slowly as and when it happens.

The next point was on institutional fees. Kevin may have a comment on margins, but on the negotiation point, fees are in negotiation. As I said in the slide -- in the presentation, however, the dispersion of return to fund of funds is so wide now that anyone who sits there thinking arguing about 10 basis points is going to move them from one end of the dispersion of fund of funds to the other is fooling themselves.

So the question is not actually -- yes, you'll have a negotiation about fees. The question is finding the manager that got themselves the right side of mean persistently through these markets, and that's why I think RMF is in a very strong position.

That gives us some ammunition to resist the negotiation around fees. We'd assume that by -- my working assumption would be that those people on the right side of the dispersion line will see little incremental fee pressure from here. Those on the wrong side won't get back fees anyway. They won't get the allocation. Carolyn?

Carolyn Dorrett - UBS

Hi, Carolyn Dorrett from UBS. Can I ask a couple of quick questions? Firstly, in terms of fee pressure on the private investor side, with the gross margins coming down, you said some of that is due to the shift into open ended in AHL. Can you just remind us what the fee structure is there on the open ended side, and can you just clarify that the reduction you're seeing in the overall private investor margins is entirely due to mixture as opposed to any absolute reduction in margin?

Peter Clarke

I'll deal with open ended. The open ended fee structure is -- it is a lower fee structure in the open ended. We don't carry the liquidity guarantee fees that we carry in the structured product, but it's a lower cost of distribution.

We don't remunerate the intermediary as much because we're earning less fee, and it's also a much more scalable proposition. It's much less resource intensive, and the global product teams, the people out market -- with marketing documentation. The open ended if it's there on the screen and people ask for it and they get it, so net, net, it's not ultimately going to make a big difference in terms of fees.

Peter Clarke

What was your other question, Carolyn, sorry?

Carolyn Dorrett

I just wanted to check that within the private investor side there's no -- you're not seeing any fee pressure.

Peter Clarke

No, that won't result in fee pressure. In fact, as we see more -- we might get some positive mix. I think Kevin mentioned this. In other words, as AHL becomes proportionately more, AHL being our most profitable manager, proportionately more of private investors, all things being equal, margins will go up.

Carolyn Dorrett

Okay. And just on compensation and costs in general, you've said on the slides there that compensation to revenue was 21%. Is that a ratio that you look to in terms of managing the business, and is 21% a desired level? And going forward, what sort of flexibility do you see in terms of your costs base?

Peter Clarke

I think in terms of the -- the costs base is -- Kevin gave you the details of fixed and variable, and theoretically the variable piece is infinitely variable. Clearly if there are no performance fees, although there are significant management fees in the organization, there would have to be a debate about whether we would adjust the compensation level, but to be honest, that's a debate that I would have with the Board and Remuneration Committee.

There's no -- there's not a mechanical number that we would work to there. So we would have some flexibility, but the answer is, we'd historically run at paying compensation out at around 20% and there's no expectation that that would be changing.

Carolyn Dorrett

Okay. So just on the costs base in general, and if we do continue to see these very tough market conditions, are there elements of the costs base that you would trim back?

Peter Clarke

Of course.

Carolyn Dorrett

Can you give us some examples, and are you thinking about doing any of that yet, or are market conditions still okay?

Peter Clarke

I think what I said in the presentation was that we are continuing to move talent in to the organization, and continuing to adapt to market circumstances, and in terms of our business model, and we're looking hard about how to make more efficient what we have. Some of that will be looking at some of the compensation costs.

Some of that will be looking at the other components of costs that Kevin went through, and technology, for example. So you would expect us, in this environment, to be looking hard at all aspects of the business, and that's what we'll do, but we're not in a position to give any great detail at the moment.

Kevin Hayes

If I can just add one thing, obviously as part of the business model, really the largest cost that we have is the cost of distribution, which is very flexible and variable. We are not [inaudible]. I think that is a big component of our business model, and the fact that we do have regional offices, they're generally staffed with people who cover the core investment manager content as well as deal with customers themselves.

But quite frankly, there are fairly thinly staffed, because the interface is generally with the intermediaries, who are then providing their sales forces to distribute the product. So yes, it should be very flexible and variable model. So if we saw a further reduction in appetite for product that would automatically scale down.

From the floor

Three questions if I may. Just a quick one on the -- I'm probably being stupid here, but [inaudible] by some products, 641 up from 369. Is that Ore Hill/Pemba, or?

Peter Clarke

No, I think what we've seen in this market is that funds will move between different strategies, de-gear, de-lever, rebalance their portfolios on a more active basis and we facilitate that process by advancing the funds, the money, so that they can systematically re-gear and de-gear, and rebalance. That's in the interests of the investor, because then the investor stays invested on a constant basis, and then we will take those funds correctly back from the fund products. So this side increases probably more a fact of the speed at which people are rebalancing of the increase, kept the funds under management going.

From the floor

Right, so that is a like for like increase?

Peter Clarke

Sorry?

From the floor

Yes, so that's an increase? That is a like for like increase?

So two other things. One is just on Man Glenwood. Given your strategic position on MGS, and very understandable, was it the case that Man Glenwood was -- that you took a decision that things would -- that the outlook perhaps was brighter, or that in structural problems that you can't -- that it is more difficult to de-lever to the same degree?

And secondly, related, I suppose, what -- I don't think you gave us this number -- what is the AHL capacity? Are you going to pump a lot more assets in there? How far do you think you can go?

Peter Clarke

On AHL, I said earlier I thought it could double over time depending on timing and the product it goes into, so that's 50 on a long-term basis. On the Glenwood point, it was the Investment Committee's decision to take it product by product. Glenwood sits in the IP220 product with a big chunk of AHL, and therefore trading capital accretion in IP220 has been much more significant than it has in the Glenwood -- in the MGS content.

So the function of just having very much more significant options there in terms of trading capital, and Glenwood, notwithstanding the fact that its volatility has increased of late, is a much lower volatility product, and therefore easier to fund than the MGS business as well. So it's a combination of how much gearing you can put on, and how much gearing you'd want to put on in these market spaces.

Any more questions? Simon.

Simon Russell

Yes. Good morning, Peter, it's Simon Russell from Merrills. Two questions on the dividend and excess capital please. Could you just give us any insights? I know it's the interims, but can you give us any insights into the broad discussion about the dividend at the interim, and if market conditions continue as they are, some sort of insight into the dividend philosophy going forward?

And a similar sort of question on the excess capital really. I'm sure you're being offered opportunities to regain that, so if you can just give us an update in terms of your philosophy on surplus capital, and opportunities that abound, including your own share price at the moment?

Jon Aisbitt – Chairman, Man Group PLC

Okay, maybe I can answer the first of what were I think were numerous questions. Specifically taking the Board's thinking behind the interim dividend. You won't be surprised that it -- that that was a discussion that was informed by most of the key themes that the management team have been running through today.

Capital strength, it's strong, and continuing access to liquidity, confidence in a robust business model, attractive products, interesting and attractive geographic spread of customers, strong distribution. And I add to that, in these market conditions, and I think that not every financial institution would find their Board saying this, that a confidence in a proactive management team, which is actually has shown very strong action, and if you put all of those things together, and you have a one and a half times covered dividend, the Board, I think, is right to be confident.

Simon Russell

That's quite clear, thank you.

Peter Clarke

Thanks Simon. On the other capital opportunities point, we have lots of opportunity to spend $1.5b for everyone walk through -- through our doors offering us opportunities to invest. I think the fact is that having surplus excess capital and excess capital of this magnitude is such a powerful credibility and competitive advantage that we're not in a hurry to spend it. As Jon's pointed out, the Board's very keen to ensure we're taking advantage of the opportunities in the market, but in these markets, you've got to be careful what you're investing in, frankly.

And frequently, we can get access to what we want in terms of capacity or joint venture products without necessarily taking a stake in someone else and actually expending capital to do that. So we will leverage our capital in that sense, in negotiation terms. Otherwise we'll basically keep it.

In terms of the opportunity to buy our own shares back, which I think was what you were getting to there, we've made a set of decisions around the dividend. We have continued to grow retained earnings, because we've not spent the first half's money. Clearly we will look at those opportunities in conjunction with the Board for the second half, but we'll obviously have to see what's out there in the second half for markets generally.

Any more questions? There's one -- maybe one last question, because we've taken a lot of your time.

Daniel Havercroft - Investec

Daniel Havercroft from Investec. Just a quick question. AHL appears to be the emphasis going forward, and particularly in the second half, and I think we can all understand that, given the performance.

But just in terms of the proportion of management fees that AHL accounted for in the first half, and how you expect that to change in the second half, and going forward, because it strikes me that we're going to rely on AHL a lot more than we've been used to going forward, which clearly does increase the potential risks in your business.

And just following on from that, with greater emphasis on AHL, which itself has had a reasonably volatile performance in the past, can we expect to see the net inflows a lot more volatile going forward as well?

Peter Clarke

Shall I take some of the general points and maybe Kevin can deal with the financial question that's sat behind it, in terms of financial reliance? In terms of the business's reliance on AHL, it may be built in size 40% of assets, probably not a dissimilar proportion of income.

Kevin can talk about that, but the point about AHL is the characteristics that it has, that I spent some time on, make it so attractive and compelling as part of our business that you would always have it there. It's not like we've not wanted to invest in AHL. We've absolutely invested in AHL to make sure we can do more of it. And if we can do more of it, we will do more of it.

Relying on something that's very successful and been very successful for 20 years isn't a bad thing. The volatility point, it clearly does have more volatile performance, or at least it used to have in these markets and in hedge fund strategies, volatilities come right up as well. It does have more volatile performance, and has negative correlation to equity.

So really what we've been doing is attaching other hedge fund content to AHL so that effectively we can bid for more of the client's assets. So it's not so much actually about trying to diversify away from AHL. It's what everyone wants. It's about getting more of the asset from the investor that we can then manage and obviously earn more fees on. This will go to savers.

We've talked about the managed account platform. I think we can construct something which is very compelling for the investor alongside AHL going forward. So it's certainly -- I'm not concerned about reliance or volatility around the AHL numbers. On the financial side, Kevin?

Kevin Hayes

Yes, I think the reality is that AHL is a very efficient business model. From a capital standpoint, from a liquidity standpoint, because of the way that the futures markets work, it actually doesn't -- it internally funds itself on the open end basis. So a heavier reliance on AHL would not cause us any particular concerns from a liquidity or capital standpoint at all.

Daniel Havercroft

But in terms of the proportion of management fees that it would, say, have accounted for in the first half, can you give us a bit of a flavour on that?

Kevin Hayes

As Peter said, we obviously don't disclose individual core investment manager economics. And that's because a large -- other than the AHL open ended content, it's sold as a blended product on a guaranteed basis into the private investor network. So it's really part of that overall margin analysis that we show you.

Peter Clarke

We don't account for it. It's not like we're being obtuse in not telling you. It's simply that we don't allocate costs. What would you allocate to AHL, some of the distribution costs, some of the funds? We don't do that. We get AHL concentrating on investment management sales and structure and distribution done with somebody else. Thank you all very much. It's been a long morning. Thank you for your time.

Operator

This now concludes our conference call. Thank you all for attending.

[End]