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Speaker(s): Jon Aisbitt - Chairman
Kevin Hayes - Finance Director
Peter Clarke - Chief Executive

Jon Aisbitt - Chairman

Good morning, ladies and gentlemen and welcome to Man Group's interim results for the period ending September 30, 2009. As usual I have with me on the platform Peter Clarke, our Chief Executive, and Kevin Hayes, our Finance Director. Our agenda for this morning is as follows. I'll make a brief introduction, Kevin will review the numbers, and Peter will update you on developments in our business and talk about the outlook before we answer any questions that you may have.

We believe that our first half results demonstrate a strong response to last year's challenges. We saw growth in private investor funds under management, driven by industry-leading levels of sales. We acted swiftly to re-engineer our multi-manager business and are now seeing promising levels of interest from institutional investors around the world. We maintained cost discipline and, at the same time, have continued to invest in our franchise. Given the low levels of funds under management with which we began the year, we saw reduction in absolute levels of profit in the first half. However, we remained strongly profitable and earned $302m of statutory profit before tax in the period.

The Company, its business model and its balance sheet remain strong. We have a very healthy liquidity position and we believe that there are real opportunities for profitable growth going forward. And in light of these factors the Board has decided to maintain the interim dividend despite the lower levels of earnings per share that we are reporting for the first half.
In summary, the Board remains confident in Man's ability to strengthen and grow its franchise and to lead the industry as investors' priorities focus ever more intensely on regulated onshore product formats, the control and transparency provided my managed accounts and the sustainability of an investment manager's business model.
Peter will tell you more about our initiatives and advantages in each of these areas, but first over to Kevin for the financial review.

Kevin Hayes - Finance Director

Thank you, Jon. Good morning. The first half saw good momentum in our business and the successful execution of the plan that we outlined in May. In September we had $44b of funds under management after strong private investor sales and reduced redemptions. Funds under management were broadly unchanged as of October at $44b under management. As expected, our net management fees for the period were lower as a result of lower funds under management. However, gross management fee margins for both the private investor and the institution have remained stable.

We have demonstrated our financial discipline by reducing our cost base while maintaining our investment in infrastructure and research. Our capital position remains strong, with surplus regulatory capital and available liquidity to support the business.

Let's look at this in a little bit more detail. In March to September, private investor funds under management grew to $29.3b, driven by positive net flows in the first half. Looking a little closer at the private investor sales history in this chart, we continued to deliver high levels of private investor sales due to the unique business model of distribution and structuring which enables us to respond to investor demands on a worldwide basis.

In the first half, the investor preference was for open-ended products and we sold $3.7b of open-ended products across all five regions. This reflects the current investor demand towards liquid, transparent and regulated onshore products. During the half we also saw an encouraging trend in private investor redemptions which trended downwards.

Just to note, with the open-ended product, redemption rates are going to be slightly higher than on the guaranteed products. For the guaranteed products, investors have profit lock-ins and guarantees so as they make performance they can actually stay invested knowing that

their capital is protected. With the open-ended products, as people reach their investment objectives, they do have a tendency to redeem and then switch into another investment.

With regards the private investor margins, you'll see from this slide that we continue to have stable private investor gross margins, 421 basis points before interest income. As we've mentioned before, we're not seeing pressure from the private investors with regards these margins as private investors continue to value their products on the basis of net of fees. Likewise, net management fees have remained stable at 173 basis points, the result of cost flexibility, reduced costs and maintaining scale in our private investor business.

We've also given you details at the bottom of the slide for the gross management fee margins for the open-ended and guaranteed products before and after sales commissions, and we've talked about this previously. Guaranteed product margins, 338 basis points net of sales commissions compared to the open-ended products of 273. The higher guaranteed product margin reflects the fact that that product is a structured product, it has guarantee and we arrange the leverage. Obviously that is a more costly product to support.

As you've seen earlier, current investor demand is towards the open-ended range and therefore there is a potential for a mix shift in aggregate margins, with open-ended products having a slightly lower gross management fee margin. But remember, the onshore product business is an additive channel and it has the ability to scale with high volumes. And Peter will talk more about this opportunity later.

Turning now to the institutional funds under management, institutional funds under management reduced to $14.7b, reflecting the impact of redemptions and lower sales. Again, the significant trend with the institutional funds under management is to note the reduction in redemptions over the last three quarters. In the first quarter fiscal 2009, institutional redemptions were $3.6b. For quarter three, the quarterly notified redemptions which were paid October 1 are approximately $700m. While this trend does mirror the industry trend, we've continued to provide liquidity to our client-facing products and therefore have maintained credibility with these investors.

With regard to institutional margins, the gross management fee margins have remained stable at 91 basis points. Net management fee margins have declined to about 9 basis points, which is just above breakeven economics for the institutional business. This is in line with the strategy to maintain the infrastructure and expertise in the institutional business so that we have the capacity for anticipated future institutional flows. This gives us the opportunity to take market share as the institutional investor returns to the market. Our institutional business can effectively scale with the current resource base to increase the net contribution from the institutional business.

With regard to performance fees, in the half we had performance fees of $47m, slightly higher than the trading statement, because of a strong performance at the end of the period in a number of annual performance fee open-ended products. On a weighted average basis, AHL at the end of September was 12% away from performance fee highs and this distance from peak has increased during October. Given this, we have modest performance fee expectations for the second half.

Turning to the income statement, we are adjusting statutory earnings for three items, highlighted on the slide. During the first half we sold our residual stake in MF Global through a variable forward transaction with Nomura. This transaction has initially generated profit of $34m.

There are two further items related to restructuring of the business. We announced the initial round of cost reduction measures in March, followed in May by the restructuring of the multi-manager platform. We have a severance charge of $11m related to the measures announced in May. In addition, we've evaluated our current office space and have recorded a charge of 13.1c primarily related to vacant office space. This gives us an adjusted profit before tax of $292m, adjusted earnings per share of $0.131 and a return on equity of 10.8%.

With regards to costs, we've continued to maintain cost flexibility and cost discipline. We have previously announced $90m of cost reductions in base salaries and other costs and these are highlighted on the table. For the first half, these expense lines aggregated $199m, compared to $246m for the second half of last year. This shows that we're on track to achieve the target savings on a run rate basis by the end of the year.

In addition to these cost saving measures, the bonus component of compensation remains variable with the economics of the business. So despite lower performance fee income and lower contribution from the institutional business, we still have significant operating leverage in our business and returned 40% pre-tax margin.

Specifically on some of the line items where you can see we've reduced costs, we've reduced costs in professional services and consultancy, and on the other line, indirect employment-related costs. Given our cost discipline, however, we have still continued to invest in the business, specifically related to technology. The investment in technology, a program that was started in fiscal 2009 to build scalability in our business, has now delivered in areas of risk management, the managed account platform, and has assisted in the platform integration of the multi-manager business.

We have continued and will continue to invest in research, primarily in AHL where we started to see investment initiatives such as Oxford-Man Institute come through in new investment management strategies for investors.

With regard to our capital position, the balance sheet continues to be liquid, with just under 50% of the assets in cash and short-term receivables. We continue to have financial resources available to support the business and have continued to see new products to investors. Our balance sheet is supported with $4b of equity. We have over $1.6b of excess regulatory capital and $2.4b of committed bank loans. The strength of our capital base and access to liquidity adds stability to our business and continues to give confidence to our investors.

In summary, these results reflect the successful execution of the strategy outlined by Peter in May. We've maintained our financial disciplined to preserve the economics of our business and maintain scale for our investors and intermediaries. For the future we continue to have significant capital resources to take advantage of opportunities to grow.
Thank you. Let me hand over to Peter.

Peter Clarke - Chief Executive

Thank you, Kevin. Good morning, everybody. As you've heard from Kevin and indeed from Jon earlier, I'm going to be talking about some key industry themes, explaining how we've positioned ourselves to take advantage of those initiatives and developments both for shareholders and for our product investors. And they fall into three basic categories.

First, how we're positioned for asset growth in terms of the investment background and outlook, the portfolio drivers for allocators, the private investor asset raising segment, the progress we've made on the multi-manager platform including, importantly, the managed account piece of that. Secondly, I'm going to spend some time on what we've been seeing as evolving investor requirements in today's environment and of course how we're positioning ourselves to address that. And lastly to explain how we've been at the forefront of changing our investment propositions, as Kevin mentioned, to address these changes head on and why that matters.

So let's start by looking at performance. This slide shows you hedge fund style performance as experienced by our own style portfolios across the first half, so April 1 to September 30. As you can see, all styles are positive by nearly 10%, the exception being managed futures which was positive but up a lot less than the others. This style includes a variety of manager styles, not just trend following managed futures. It has mean reversion, high frequency and

other trading strategies in there which is why it's positive, although the CTA community in terms of trend followers were negative in the period.

The net result, as you can see in the dark blue column on the right-hand side, is for a blended investor in our diversified fund offerings, for example, Four Seasons. They would have been up about 7% for that period, lagging slightly the HFRI index. Two reasons for that, both of which you're familiar with, we focus on a low beta portfolio which means we go underweight equity long/short which is overweight on the composite index and has been a place where there has been significant positive performance as you will have all seen. And we go overweight CTAs because of their low correlation to equities which, as you can see from the left-hand side of this chart, is where performance was not significantly positive during the period.

Looking at AHL in particular, AHL, as you know, saw a small negative performance across our first half, although was positive within the second quarter within the first half. The left-hand side of this slide shows the attribution by assets. Equity has been a significant positive contributor given strong equity market rally, bonds being the largest detractor from performance as we've seen risk-on/risk-off environment and the inevitable impact that's had on low-risk assets and yields. The important fact here is that there is nothing surprising or unusual about AHL's performance in the circumstances of these markets, either in the plus 33% 2008 or in the minus 12% 2009 year to date.

If you're wondering what impact that has on an investor in Man's products, consider this. An AHL investor who invested on January 1, 2008 would have seen a plus 17% return on that investment by September 30, 2009, with a maximum drawdown of 14% in that period. Over the same period, an investment in global equities, as represented by the MSCI, would have seen a negative 28%, with the worst drawdown of 49%. So the AHL investor got diversification and had access to liquidity, and that is why people invest in AHL.

In October, as you've seen, AHL saw a negative performance for the month since the period end, with continued market oscillations, this time particularly in currencies and the dollar, and equities, the equity reversal cost a little bit in terms of October performance for AHL as well. Long-term AHL investors are perfectly familiar with the behavior of AHL in these sorts of markets. They've experienced the skewed positive outcomes that you can see from the long performance track record. And they've also seen how, in the past, AHL has moved strongly to pull out of drawdowns once sustained trends do emerge.

As you know, we continue to invest in AHL. Kevin mentioned the Oxford-Man Institute. We've actually had to move to larger premises because of the success of that in building research capability and attracting talent.

Quick reminder of the longer-term investment proposition here. Clearly the value investing in hedge funds and managed futures as part of the diversified portfolio is illustrated here. It's not lost on the investor base. All of the surveys recognize that virtually every investor and institutional allocator recognizes the continuing benefits of diversification, they just need to take care about who they select for that. Also you can see the complementarity of managed futures and a diversified hedge fund basket from this slide, both showing strong out-performance, especially since 2002. And it's that combination of managed futures and a basket of hedge fund return which is effectively our core franchise product IP 220.

Some progress on the multi-manager business. In March we announced the formation of the multi-manager business through the combination of RMF, Glenwood and MGS to create a managed-account-based flexible format for hedge fund investing. This is a substantial business. It already has $18b of assets under management. The successful integration of the operations, the establishment of a new investment process was completed at the end of the summer. The timeline shows we're now at the stage of due diligence and validation as allocators reach investment conclusions.

We're confident that we've constructed something of significant attraction here. Two recent validations for that. First, a Fitch rating of the investment management process within the multi-manager platform at [M2 plus], the highest they've given any multi-manager business. Second, the recently announced initiative with Credit Suisse, where CS will be marketing our managed account investment process to their investors globally. The quote on this slide is from Fitch, recognizing the speed, hard work and thought that's gone into the successful execution of the process so far.

So what are we addressing? What is the new investor agenda? You've heard me talk about this probably since March. The themes here really center around three words, familiarity, security and sustainability. The presentation shows you a survey result from actually a Deutsche Bank survey, respondents identified transparency here as the thing that they were looking for as a new and pressing concern, coming up there as one of their top five concerns from nowhere in the prior year. When you unpack that, they're really looking for the same things.

What is that on the familiarity side? It's to do with format and strategy. That is of course dependent on the investor's own experience and portfolio composition with what they are familiar with, that is reflected in the need for closer engagement and understanding between allocator and manager. They're also focused on the nature of returns, the inherent rather than the perceived liquidity, given the experience people have had, and in many cases a regulated onshore product. Even institutions are looking for regulated onshore product structures.

Security is about asset control, custody, objectivity on valuation and pricing parameters, but it's also about the ability of the manager to adapt quickly and flexibly to a rapidly changing investment horizon. Sustainability is the need to due diligence the manager as well as the fund. Most people have been due diligencing the fund rather than the manager. People have realized that the sustainability of the manager's business at times of stress can be as important as performance in the fund that they're invested in. We're going to go into detail about how we've addressed those requirements in the balance of the presentation.

So that demand for trusted formats, what is it? What are people looking for is familiarity there. Really what they're looking for is something that will have survivability in an environment of significant change, particularly regulatory change. And that has led a lot of people to onshore regulated product structures.

First point to note, which you're all very familiar with, is that this is not new for Man. We've been investing and expanding our onshore distribution process very deliberately over very many years and have an established presence and capability in virtually every continent as you can see. What has changed recently is that there's now both a regulatory push and an investor pull to onshore products. That combination is powerful in terms of momentum for the onshore business.

As I said earlier, this is not just a requirement for the private investor. We speak to major European pension funds for example, who want onshore regulated UCITS structures to invest through.

Some examples of recent onshore product development here. Naturally we're present in many other territories, but recent ones, you'll be familiar with a couple of these, the AHL UCITS product launches here, Diversity and Trend in Europe. A couple of new initiatives in Australia, in Canada and, indeed, in Latin America. But these are potentially very substantial markets but they are complex and resource-intensive to access and they therefore have very high barriers for entry.

They also demand high levels of client service and product administration. They also require strong relationships with local distributors who have brand awareness in the territory. We have these tools in most markets. And I clearly firmly believe that this will be an important route to significant asset raising. It is incremental in each territory. And, as always, we will

proceed carefully and thoughtfully to provide long-term investment solutions into these markets. All of this naturally in addition to our offshore guaranteed structures products for those territories and investors who wish to access that format.

Onshore opportunities continue to open up in new territories, Taiwan being the freshest of these. People say how long did this take. The answer is it took two years to get a Taiwan regulated onshore product, the first of its kind into Taiwan. I've been there. I've met the regulator. I don't think they have any expectation of allowing any other regulated onshore product for the foreseeable future.

We did this in a joint venture with a local onshore asset manager distributor. They raised $164m in two weeks. We have an expectation of follow-on product with them and with other distributors. As I say, I suspect we will be unencumbered by onshore competition in Taiwan for the foreseeable future. Just an example of how our presence in the region, in this case our relationship, the confidence that the regulator has in our products, can create something which is pretty much unique.

Why is that unique? This is an effort to try and demonstrate graphically how complex this is. We've tried to illustrate the requirements on a product manager and how they increase, and probably actually exponentially rather than linear as we've shown here, with the degrees of regulation along the X axis and the type of investor along the Y axis, from offshore at bottom to onshore mass affluent at the top.

Man, pretty unusually, perhaps uniquely, operates across this spectrum. We're able to meet the requirements of developed private investor onshore regulatory requirements, for example, UCITS, which would sit at the extreme top right hand here, whilst also catering for offshore institutional investments for those who can and want to access those routes. Most of our competitors are in the bottom left to middle zone here. Those that do access the top right typically do that through a structuring partner, usually an investment bank or similar.

So what's happening with regulatory trends? As you all know, the regulatory environment is changing and it's changing faster than it ever has. We've tried a very simple format here to break down the regulatory components into a trading regulation, manager regulation and product regulation.

On the trading regulation side, some positives. The move to OTC products on exchange will help capacity and diversification within businesses like AHL, the managed futures industry. The fear of open interest limits in the US or notional leverage constraints in the EU has evaporated or is evaporating. Given recent indications, I do not think there is going to be any negative impact on that as a result of those, either of those developments.

Requirements for manager supervision, regulation, prudential capital are going to become more onerous and more widely applied across the investment management communities, so the alternative investment management community. But we are already, as you know, operating under that regime so we already have in place the necessary capital resources and structures to address that. In some sense it's a leveling of the playing field as far as we're concerned.

At the product level, there's likely to be continued focus on local regulatory formats. Those requirements will continue to develop piecemeal in different territories. Our experiences with all of the local regulators is that they are taking much more care to understand the structures that they are approving. And that again will work to our advantage. It may slow things down in the short term, but it will eliminate a lot of competition in the longer term.

As you know, a local flavor, a local presence, a local relationship with regulators is something we've been building on for over 20 years and have the infrastructure to address that complexity. So we're seeing a shift in the environment which is coming our way.

I talked earlier about security as one of the key things that investors were looking for. That's answered by more transparency, by asset control, focusing on position reporting and trading and instrument reporting. The managed account structures meet some of those objectives, though not all of them. So a few minutes on the MAC platform, given its importance to us and to the industry.

The managed account is a separate corporate entity, as I'm sure you all know, which holds the invested assets which were in turn traded by the hedge fund on an advisory basis, usually by reference to a reference fund which they more or less track, depending on how much leverage or other requirements an investor has for differentiation away from the reference fund. So different leverage can be applied to reflect the risk appetite of the investor. And sometimes different liquidity terms are available in the MAC platform, but from our perspective that's not key to the investment.

Because the MAC assets are held by a separate legal entity and reported directly by the prime broker, there's full transparency of the positions and the scale of the instruments being traded. So that can be used either to offer direct access to the investor. Our investors, even the largest institutional investors, seldom have any interest in position reporting. But what they do want is aggregated risk reporting and that's what our risk reporting program produces for them.

Our MAC platform is a little different in that we use MACs primarily as an investment management tool, not a flow tool for transactional banking services. And that independence, both of the manager and of the prime brokerage community and trading desk, is seen as a key advantage by many large allocators. Governance and separation achieved by having that separate entity is also helpful for the big institutional allocators who might otherwise perceive conflicts of interest.

And finally, of course, the control of the asset which the managed account provides means that timing of liquidity is determined by the investor, not the manager of the underlying reference fund, and removes some of the gating risks which investors have been particularly concerned about over the last couple of years, for obvious reasons.

So what is Man doing about that? As you all know because we talked about it in March and we've now executed on it, we have pulled together a managed account platform which is unusual, perhaps unique, in both its scale, scope and our experience. We've been operating managed accounts for over 10 years. As I say, we've been using them as an investment management tool, a flexible investment management tool and as a risk reporting tool. We've been operating them through the good times and the bad times. We know at times of stress how you have to go in and deal with managed account issues, whether that's stress at the manager, stress in the assets or stress in the prime broker.

We've created this flexible framework for us to construct and manage MAC pools where an investor is obtaining a portfolio of MAC investments which Man manages according to the requirement of their mandate. We've increased by 50% assets in the MAC, currently over $6b. That excludes AHL. We've a wide range of styles, as you can see from the pie chart on the bottom, so that we can provide that complete pool of managed accounts within our portfolio construction. Our focus is on quality and style diversification, not size or number of MACs on the platform. We are by far the largest independent operator of managed accounts anywhere.

Recent validations of the attractions of the MAC infrastructure we've touched on, the Fitch investment management rating and of course the Credit Suisse initiative, where they've seen the attractions of our managed account platform to their investors lately.

So what's the pipeline looking for in terms of this? It's clearly resonating very strongly with our investors and major distributors. Not unique to institutions, private investor distributors are looking for this format as well. Notable progress over the last few weeks. Pipeline is

across the world. Geographically we've got US, Japan here, but there are other territories. It includes institutions, it includes sovereign wealth investors.

Many of those discussions, as you can see from some of the identification here, are at an advanced stage in terms of product content and portfolio design. But all of this requires a due diligencing of our platform and our new investment process. A lot of people are going through that at the moment. As I've said before, I would expect institutional flows to move net positive during our second half and recent progress strongly supports that proposition.

I also talked about the need to diligence the manager rather than just the fund. For example, a major -- I won't identify them too clearly -- a major European state-owned pension investor is looking at our managed account platform in very considerable size. They are spending as much time understanding Man as they are the managed account process. They want to know everything about Man. It's very easy for us. We're a UK listed company with total transparency at the GP level and it's not a problem, but our standing there puts us in a very strong position when an institution like that wants to make a substantial commitment to a managed account platform in that case.

The recent Casey Quirk model on the hedge fund industry, said that the so-called enduring firm was one that was structured, capitalized and flexible for investment management. Those will be the winners. We would say that that's exactly what we've built.

So pulling all that together in terms of the competitive positioning that we have, you can see the substance behind our belief that we're going to be a beneficiary of market share in our industry. We will leverage our worldwide infrastructure to cover an expanding range of complex and diverse markets, create solutions that will open up new markets. We have re-engineered our multi-manager business already into leading and growing managed account platform. And we will continue to use our resources to invest in our business and to grow our hedge fund capabilities more widely.

It's difficult to size this opportunity in any meaningful way. We can talk about the size of the UCITS markets onshore in Europe, $6 trillion. But what does that mean? It just means it's a huge market. It's very difficult to establish how much of that can genuinely be accessed by alternative investment management structures.

But what we can do is look at a range of outcomes for the hedge fund industry more generally. This again on the left is the recent Casey Quirk actually from April this year. They were a little overly pessimistic about what is going to happen to industry assets. You can see they actually expect them to continue to fall down to lower levels than they reached. But actually at $1.5 trillion, which is the latest HFR stats for Q3, we're ahead of where Casey Quirk, as an example, would have suggested that it would be.

Attractions of hedge fund investing remain absolutely in place. It's quite clear to me meeting many institutions globally. I'm totally convinced that there will be sustained in place into the industry. Investors have moderated return expectations and risk appetite. They've generally had a bad experience of asset liquidity. They're looking at firms that can structure a return stream for them to meet their own complex portfolio requirements, but in whom they can have confidence as a counterpart.

The question isn't one for me of when or whether returns will flow -- flows will return, sorry, but rather who they go to. There will be fewer firms who have adapted and can accommodate scale inflows, given the changed investor requirements. Those who have are the ones that will take the lion's share. We're a business which is clearly resourced, as you've heard from Kevin and hopefully from my presentation, and positioned to take significant asset inflows.
So I'm going to stop there and, as Jon said, move on to Q&A.

Andrew Mitchell - Fox-Pitt Kelton

A couple of questions. You mentioned I think in a video interview you did this morning about interest in diversifying the business away from AHL, which seemed to me a little bit stronger than you've perhaps said before, maybe not. But could you give examples of the sorts of things that might interest you, either in terms of picking up teams or acquisitions?

And the second question related to the net fee figures you gave for open and guaranteed products. I think previously you've said that there was little difference between the net fees. It looks as though there's perhaps a bit more difference than that indicated or is there something else which actually further nets off the difference when you come down to the bottom line?

Peter Clarke

I'll let Kevin go and give the detail on the last point, but just a quick answer at the high level. We're taking out structuring fees, which obviously only apply to structured products. So start from a higher place but if you leave those out, net-net, I don't think there's much difference. But Kevin can provide detail about that.

On the expanding the business point, what I said on the Cantos interview which was on the wires this morning was in answer to a question, is your strategy to develop the business increasingly away from AHL. And what I responded to that, which is the same answer that I've always given but perhaps with some different intonation, is that we are in the business of providing interesting return streams to our investors. AHL is clearly one of those. We've invested heavily in doing that. It remains very attractive, but it does perform, as we've just seen, at different times in different market circumstances and our investors want some balance to that.

So it's an investor-led strategy rather than a business-led one. But it also of course brings balance to the business and we would like to have that too because that means we can sell at times when AHL isn't as attractive as at times when it's performing more strongly. So that was the backdrop to the commentary.

What I did say then is that we're always looking at opportunities. The opportunity set is phenomenal at the moment. There's probably not much that we couldn't do if we wanted to at the moment. That is encouraging and it's good, it give us lots of optionality, but it's not something we're going to rush into.

In many cases as you've picked up I've said that we're able to buy teams, start businesses or seed businesses, or just take assets without actually having to buy businesses. But where it makes sense to expand we would like to expand some internally managed capability. Our interest there is primarily around equity-related product because it sits so nicely with AHL. So equity long/short and market-neutral strategies and perhaps also some emerging market provided it's well-diversified.

Kevin Hayes

I think the analysis on page 11 was just to basically give you a little bit more detail for the potential for this mix shift. The 65 basis points difference between the open-ended and guaranteed really is solely accounted for by the fact that it is a structured product where we provide in a range the facilities for the leverage. So below that, in the net, there's no further costs being incurred.

And really the point there is, as Peter has mentioned, the opportunity for the open-ended product is a high volume opportunity. As opposed to the guaranteed product which is obviously a very high margin product, but it takes, an investor appetite for longer term horizon, but definitely themed towards particular markets where they have a preference for guaranteed as opposed to open-ended products.

Philip Middleton - Bank of America - Merrill Lynch

I just wondered, could you say a little bit more about the onshore opportunity? Who else do you think is competing with you for this opportunity?

And you've said it's impossible to size, which of course is true. But I wondered if you could give some indication of what you're hearing from distributors, what distributors you're getting and otherwise just to size the opportunity.

Peter Clarke

Which is impossible. Okay, on the first point, Philip, who do we bump into on the street here? As I say, at the structuring end, at the UCITS end, you know the names as well as I do. There are hedge fund styles, particularly long/short and some global macro-managers that can get into UCITS products because they have enough inherent liquidity to be a UCITS-compliant product. Many other hedge fund strategies cannot because they can't meet the liquidity requirement for the investor or at least can't safely do so.

Historically, investment banks in particular came and wrapped that liquidity to bridge the product liquidity to meet UCITS requirements. That wrapping is extremely difficult to secure now given the risk appetite of the banks in particular. So it's drifting to those people that can provide highly liquid content and clearly that plays to the advantage of the managed futures set in particular. So we're meeting some people directly there.

Apart from that what we're meeting are those people who can structure content, for example around their own MAC platform. So Societe Generale off the Lyxor platform, Deutsche Bank off their own platform, those people can structure a UCITS-compliant content which sits within - which is fairly broadly diversified in terms of hedge fund strategy - that sits within their MAC platform. That effectively is from starting from a different point, but ending up in the same place in terms of what the investor sees. We're starting from an investment management proposition and using the MACs as the platform. They're starting from the MAC platform to try and produce a product for the investor.

But those are the sorts of people that we're bumping into there. We're not seeing any other alternative investment manager occupying onshore regulatory environments. Because, as I say, it is an extremely high barrier to entry in terms of complexity and a long duration in terms of relationships you need so really not a lot of competition.

On the sizing point again, all I can say I think really, Philip, is that it's clear to me that, as I said, there's a regulatory push. There's now an investor pull and the investor pull's the new bit. My personal view is there will be as much demand as there will be product that you can get into UCITS format. Don't think demand is going to be the problem. I think it's going to be who can provide a product that gets into UCITS format, certainly for the medium term.

So I think it's a significant opportunity, as I say. I want to caution you, we will move carefully here. We're not interested in producing product that does not perform within the expectations of the investor in these markets. This is our core market. We need to protect our franchise. So we will move carefully with regulators. We will move carefully with product structuring. But I would expect this, as I said in the Cantos interview, I think to be a very significant counterbalance to the rest of our business, our single manager business, over time. But it will take time to build.

Philip Middleton

Thanks very much.

Carolyn Dorrett - UBS

Two questions. Just following on from the onshore point, I noticed in the presentation you had Latin America as a potential area. Can you elaborate more about which countries you're interest in there, again with a competitive backdrop there?

And then secondly just in terms of the institutional side, I think you mentioned that fund flows are very likely to turn positive in the second half. Can you give us any indication on the likely management fee margins attached to that new business? Thank you.

Peter Clarke

Yes, okay, thanks Carolyn. On Latin America, people will jump around if I get too specific somewhere in the back row because we're a bit precious about telling people where our plans are. But suffice it to say that there are some very large countries in Latin America which have significant investment flows and where we believe we can provide regulatory approved onshore product to suit those markets under the new rules and regimes there. So I think there's definitely opportunity there. We believe we have product that can get to that market over the course of the coming months.

On the institutional side, we have to use the MAC platform approach as the starting point for margins on institutions, it's fair to say that what we're offering the institution is a range of potential outcomes in terms of how much investment management we do and how much investment management they do. At one end we are producing a pool of investments that happen to be in managed accounts, but we are taking full discretionary control over the assets.

And that will be priced at the sort of level that you would price a fund of funds diversified asset pool at, and so you're going to be talking about probably somewhere in the 60 to 80 basis points. Plus a managed account fee because clearly institutions accept and understand that there is a fee associated with operating and administering a managed account and they accept that they have to pay for that. That fee is pretty competitive actually. Some people seem to charge quite a lot for this. We would expect them to pay around 50 basis points.

It depends on the size of the investor. It depends on the mix of managers. Some styles are difficult to manage MACs in, some are much more flexible to manage MACs in. So at the easy end would be managed futures, for example, very easy to operate a MAC, for example AHL.

But the point is that there's real leverage, operating leverage, in both of those. So whilst we have an infrastructure, as Kevin said, which is built to accommodate very significant flows, which isn't making a substantial amount of money at the moment, if you tip in a lot of assets at those sort of margins and you don't need to change your fixed cost base materially, you get some very strong operating leverage. And clearly that is the direction that we're seeking to move the platform.

So that's one end, fully discretionary. At the other end, do we allow people to come in and say I want this MAC and that MAC? Not at the moment, no, we don't. We're an investment manager. We're not an outsourced MAC provider. If you're big enough, we will say you can, provided you give us size. And we might want to limit the underlying MACs that you're investing in so that you don't take capacity away from the fully diversified side of our business. We'll probably let you do some of that. What's the fee on that? Then that's probably half that gross management fee because we're making no investment decisions for them.

So that will give you, that gives you some idea of the spectrum, but there's still a MAC fee, administration fee on top of that. Gives you some idea about where that spectrum is. Ignoring any economics of the MAC fee, this is being priced at pretty much what historically you'd have been pricing a fund of funds investment at, just that you're using managed accounts as the underlying return stream for that. So there's nothing dramatically different about the fee pricing structure as a result of MACs. But very significant operating leverage if we get this right.

Jon Aisbitt

Jenny at the front.

Jenny Norris - AllianceBernstein

Following on from that on institutional, what scale do you need with $15b currently in institutional funds to get margins back to the, net margins back to the 50 basis points they were before?

Peter Clarke

We can all try to iterate the maths with the starting point of where your mix is on the band I gave on gross. I would have thought you need to be looking at a business which is twice the size of its current platform to be making getting back to those sorts of levels.

But operating leverage is not infinite, but nor is it particularly finite. We had a business that was managing $30b of institutional assets two years ago. So we know what the infrastructure requirement is for that, and we've retained it.

Jenny Norris

And maybe one more quick question then. You used to show a chart with the number of distributors and the funds under management. Presumably we're so far adrift of that that it just doesn't make sense to show it. But presumably the number of distributors has continued on a straight line upwards or perhaps you could describe how that chart would look today. And whether you could get back to the level of sales, given that there's a lot of investors who are sitting on cash so flows into funds generally from private clients are quite good around the world. So, yes, if you could talk about that. Thank you.

Peter Clarke

The chart you're referring to is the one where we had sales and number of intermediaries which tracked each other to some extent. If you redrew that chart now you would find actually not very much has changed I think. We've still got about the same number of intermediaries as we had. Quite a cull there of course. We've been losing, basically we've been losing the smaller ones and bringing the bigger ones on. And in terms of sales, just to remind ourselves, where assets are down, our sales are still extremely strong. Our first half was the third best half we've ever had for five years.

So it's not that we're not selling product and it's not that we don't have significant distribution relationships. What we're trying to do is skew those distribution relationships that are high volume provider who can sell onshore retail structured product. And yes, that is the small IFA community in something like in the United Kingdom here with our Diversity AHL product. That is being sold through a reasonably fragmented IFA community as well as through the major, the more major distributors. But in many parts of the world it goes through a single distributor.

Sarah Ing - Singer Capital Markets

Just on the existing MAC platform, I think you say on one of these charts you've got 64 MACs currently so that's an average of $100m per MAC. What's the capacity within that at the moment in terms of what you could add tomorrow potentially from new investors?

Peter Clarke

With the same MAC?

Sarah Ing

With the same existing managers, yes.

Peter Clarke

It's slightly difficult because of course it depends where you were to skew the assets. If it was going into managed futures it would be virtually unconstrained. If it's going into global macro, probably largely unconstrained. If it's going into some of the other strategies, it would be

more constrained. Simply because some of these managers, we wouldn't want to put $500m with, on their MAC even if they thought they had the capacity.

So, difficult one. I think the best answer to that is if we were managing twice the assets, if we'd gone to $12b in managed accounts, would you need 120 MACs? No. You might need 80. That's going to be that sort of metric. But it will depend on the manager and the strategy as to how big you can get, how big you want to be.

Sarah Ing

So just on top of that, how easy is it at the moment to source new managers, to add new styles?

Peter Clarke

It's straightforward, yes, easy. Because at the moment, and we need to recognize that things might change here, but at the moment most managers are happy to accommodate the inconvenience of the managed account in return for the assets. Two years ago that was a much more difficult trade to establish with a large established manager. But in today's world there's no shortage of people who are interested in us allocating money to them on a MAC basis.

If we wanted to make the numbers look good we could open 150 MACs. But the point is we wouldn't actually want to allocate to that MAC so it would be meaningless for us to do that and disappointing for the manager as well. So we're moving at the pace that our asset flows require us to move at rather than just numbers of MACs. Thanks.

Chris Smith - Jefferies & Co.

Just going back to when the proposal for the MAC, when you're proposing it, with regards to price relatively a fund of funds approach is clearly cheaper and prices there are getting even cheaper. So as times goes on, rather bizarrely, is some of the problems we've seen, Madoff-like, helping this approach? And do you think if things do calm down on that front the managed account approach might come under a bit more pressure?

Peter Clarke

I don't know. I don't believe so. Not any time soon, Chris. And it's not really about Madoff. If you had a MAC, Madoff couldn't have got away with it, that's basically true. But you could have a MAC with Galleon. We have no allocation to Galleon, just for clarity.

Jon Aisbitt

That's why you raised it.

Peter Clarke

That's why I raised it, yes. The MAC allows you to see into the investment. It doesn't let you see there's a criminal intent, if there is one, of the manager. So it provides some solutions.
The real solution which people are focused on here though is not really asset level transparency, instrument transparency, because, as I said in the presentation, many of our investors are saying they don't want that. They simply do not want a daily dump of everyone's positions. They wouldn't know what to do with it. They might want aggregated risk reporting.

What they really want to do is remove the asset control away from the manager and, if they can, not give it to the prime broker. So they're trying to find a way of keeping control of the asset with someone that isn't going to try and protect their business, if it's an underlying manager, or isn't trying to protect their own P&L, if it's a prime broker. So the reason that Man is an attractive provider here is because we've done it a long time and we've got the infrastructure and resources, and we've been through the fire drill on it so we know how it

operates. But also that independence point. That, I don't see that changing any time soon at all.

The question is how much are you prepared to pay for that. And once there's scale, maybe the MAC fees come down but there's always going to be an incremental cost around a separate legal entity holding your assets. But if you're sitting round the trustee board of a US state pension scheme, this is the only way you're going to go for the foreseeable future. Confident of that.

Bruce Hamilton - Morgan Stanley

Thanks. A couple of questions. Firstly, and sorry if you covered this earlier, I was a bit late. On the asset moves September to October, you say broadly flattish. I assume that includes the $700m out for institutional and a bit of a negative from AHL, so you've had some positive flows elsewhere. So I guess any color on that.

Secondly, given the historic relation between AHL and sales, I know there's obviously lots of interesting stuff as we look into next year. But in terms of your most recent conversations with clients, with sales folk, are you seeing any signs of momentum slowing or do you think the private client slowdown in gross sales in the last quarter captures the run rate for this level of performance?

And then thirdly on redemptions, I guess redemptions in private clients dropped back along the run average. But given the probably greater skew to open-ended sales, where would you expect that that stabilizes? Is it more 15% rather than 12% or do you have any sense on that?

Peter Clarke

Maybe I'll let Kevin do the maths bit for you on current assets but it did include the minus $700m so we're flat after that outflow.

On the private investor sales rate impact from AHL recent performance, I don't think -- Q2 versus Q1 wasn't a reflection of performance. That's more a fact that it's harder to sell product in most parts of the world during the height of the summer. Is AHL's performance having an impact on private investor appetite for AHL product? I'm sure it is. Is that dramatic? I don't believe it is because, as I pointed out, most people are buying AHL for its diversification and liquidity attributes rather than what it did last month. Although clearly they're looking to buy into a long-term performance track record which they believe will recur. So, yes, any period of poor performance if it's protracted will begin to have an impact on sales. But I don't think that's the delta on Q1, Q2. But going forward from here our level of sales will be a function of our performance and what's happening in the wider market, of course.

Your other question about redemptions, yes, you're absolutely right that the redemption rates are higher. The velocity of AUM is faster, as it were, in open-ended product, out and in. That is more sensitive to performance as it's by definition open ended. Where will that trend out? You can't really look at an aggregate mix, because it will depend on the two components. But I think you could expect the guaranteed product to be back to historical - which it virtually is actually - back to historical rates of the low teens. And my personal guess is that the open-ended long-term run rate is the high teens, that sort of banding. And then back right into the mix, at any one time.

Kevin Hayes

With regard to the funds under management, that does include the $700m. That was largely offset with some regearing in the IP 220 product and then performance was negative and that was offset largely by FX as the dollar weakened against the euro FUM. So that was largely flat.

Chris Smith - Jefferies

Sorry, another bite of the cherry, if I may. Just on AHL, I don't know if I'm right in saying this, am I right that it appears to be shifting its positions much more quickly than it did five years ago? And ironically would it have been better had it not done so over the last six months because there have been some reasonable trends on a longer term basis?

Peter Clarke

It's a good observation. Obviously the speed of position shift is a function of the trend and the volatility of markets. So really what you're seeing as an increase in speed of trading is a reflection of increased volatility in markets.

You're also right that if it had traded slower in some instruments it would have done better in the short term, for example bonds. It's been trading in the bond markets very fast given what's been happening. If it had held on through some of that oscillation, it would have made money. We've looked hard about whether we should try and slow down or whether we can predict when you should slow down trading in certain instruments. The answer is that over the long term you're better to leave it.

So the answer is we don't currently try to skew AHL's speed of trading by any new inputs, but we do continue to look at whether there might be an element that might look at speed of trading. But the core program is likely to continue on its current trading methodology. A bit like AHL looks for turning points in markets as well so as a way to try and offset some of the pain of sharp reversals.

Jon Aisbitt

Any more questions from anybody? It doesn't look like it so thank you very much.

[End]