



Event: Pre-Close Trading Update and Funds Under Management Statement
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Speaker(s): Peter Clarke - Chief Executive
Kevin Hayes - Finance Director

Forward looking statements

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Operator: Hello and welcome to today's Man Group Investor Call. On the call today we have Peter Clarke, Chief Executive, and Kevin Hayes, Finance Director. During this call all participants will be in listen only mode, and afterwards there will be a question and answer session. Peter, please begin.

Peter Clarke: Thank you very much, and good morning everybody. You will have seen our first half pre-close statement, so I am not going to spend a lot of time talking about that but I do want to highlight a few financial details. Inevitably the financials are backward looking, so I do intend to spend a decent amount of time looking at our progress and positioning going forward.

Firstly on the funds under management you will see that they did move ahead in the second quarter, reflecting improved markets and our strong competitive position. The sales at \$5.7 billion remain remarkably robust; \$5 billion of that was private investor, which was a very strong result, it reflects our geography, which most of you are familiar with - particularly our presence in Asia-Pacific and the Middle East, where money continues to flow in. Also the increasing attraction of onshore regulated products where there is limited competition in our product range.

The institutional inflows of \$0.7 billion remained somewhat muted, but of course redemptions are dramatically lower - I will talk about that in a moment; interesting to note that both private investor and institutional sales are up for the six months compared to the previous six months. Indeed, when I was looking at the private investor sales only twice in the previous five years have we ever exceeded \$5.7 billion in gross sales in a six-month period. So, I think in the circumstances for the market backdrop you can see what a strong result that is.

Redemptions are slowing across the private investor and the institutional investor. In fact, Q2 redemptions were about half of Q1 redemptions in both those segments - institutional having halved every quarter. We have given the indication of the quarterly institutional redemptions that we have noticed which take effect on 1 October - and you will see those have come down yet again on a half-life basis down to \$0.7 billion.

Net result was that primary investor assets were up over the six months quite strongly in the second quarter in total, and institutional assets were down, but our mix has shifted towards the private investor which, of course, is good for margins. We have a very strong financial position, continued high levels of regulatory capital in terms of \$1.5 billion and bags of liquidity. So, the summary for the first half results is that this is very much in line with or ahead of our expectations and, of course, very reassuring.

Now, I know you all want to hear some news from the front in terms of what is going on, what we are seeing at the moment and what our prospects are - all of which is also pretty encouraging. We have made some great

progress with new products and, indeed, moved into some new territories and those are in regulated product structures, which is a particularly difficult and resource-intensive structure to get in to many markets. We can succeed there where others cannot because we have people, track record, resources and importantly the relationships with banks and regulators which give them confidence to allow us into those regimes.

This, of course, is where Man has real competitive advantage, so it will not surprise you all to know that we are pressing our advantage home as far as we can. The summer has seen significant activity on the regulated product front; two new AHL UCITS products; Diversity here in the UK in sterling, and trend in continental Europe launching shortly; regulatory approvals in Hong Kong, in Australia, in other of our traditional markets; and, interestingly our first onshore regulated product in Taiwan - potentially over the years ahead a significant new market for us.

What that shows you is that the theme of onshoring, which we have talked about for a couple of years now and has actually not really materialised as fast as I had expected, I think really is happening and that has been driven by regulatory reaction to products in territories and, of course, it plays to our advantage as I mentioned earlier. We have also moved on and completed the integration of our multi-manager business, the new under funds platform. We are building out a managed account platform as part of our process. Progress on that will accelerate as we see inflows, particularly from the institutional investor, but as you know we have used managed accounts for a long time as part of our product offering and the managed account platform remains very interesting to many significant allocators. We are seeing high levels of interest there and obviously we are going to be working to convert those to real dollars of FUM over the coming months.

Performance: Q2 saw overall positive movement. AHL needs some prolonged market direction to really make a difference in terms of performance, but you will see it has been positive overall so far in the second quarter. Outlook for unlevered returns generally across the industry remains extremely promising, particularly the investment opportunity set which the industry faces at the moment is the most promising it has been for many years. Of course our multi-manager business is designed to capture that for our investors.

Industry sentiment generally has improved. I think there will be sustained strong inflows into the industry going forward from here. You will have heard me talk before about how we will lead the industry in terms of net inflows for the private investor. That is an assumption of our geography, particularly in Asia-Pacific; relationships we have with distributors and regulators and according to the fact that we did not gain or restrict redemptions which puts us at a competitive advantage to the many that did.

We have already seen positive net inflows for the private investor and you have heard me say before we will lag the industry on positive flows for the institutional component. The reasons for that are partly geographic. We are under weight in North America, which is where many of the flows are coming in. We have reconfigured our multi-manager business platform and, therefore, institutions need to due diligence the new platforms, which they are beginning to do now. We are a low beta offerer and, therefore, our performance has lagged the beta that some of the competitors have but our

principle proposition for the investor is the diversification and, therefore, we will maintain a low beta but an active allocation to beta where we see that a good place to be.

All of this will be positive in the outlook. I would expect institutional net inflows to occur at some point during our second half. I talked about the managed account platform; we have something unique there. Our competition on managed accounts is not independent; they are basically the investment banks. That independence point is playing extremely well with the allocator base. They would like to see an independent investment management business monitoring the managed accounts.

Hedge fund investing has changed. I think it will change both for the institution and for the private investor. We have refocused our business and worked hard to produce something which is new, different and relevant for today's market. We will cement that competitive position as we go forward and I think we are already beginning to see strong signs of that. That is really why in my quote I referred to our strong positioning for growth from this point.

So, that was my highlights of what is going on. I suggest I stop here now and make sure you all have an opportunity to ask questions.

Operator:

Thank you very much for that Peter. We will now start the question and answer portion of this call. If you have any questions could you please press 01 on your phone keypad now and you will enter a queue, and then after you are announced just ask your question. If you find your question has been answered before it is your turn to speak simply press 02 to cancel. So, once again, if you have a question could you please press 01 on your phone keypad now and there will be just a short break while we just organise the questions.

Okay, the first question is from Bruce Hamilton of Morgan Stanley. Please go ahead Bruce.

Bruce Hamilton:

Hi, morning guys. Two questions: firstly on the improved institutional investor demand, could I just get a sense, is that chiefly for your multi-manager core product or is that more of new clients showing interest in managed futures and AHL?

Then secondly, as I look at the private client sales mix, clearly there has been more of a skew to open-ended sales. Would you think that the mix in the last six months would be the right mix you would expect for the sales of guaranteed versus open-ended going forward or is there any skew in those numbers?

Peter Clarke:

Okay, answering those questions in the order you asked them as it were, on the institutional side there is demand for AHL and we obviously continue to pursue that. The real inflection point, I think, for our business anyway is around the multi-manager platform. That is particularly being focused at the moment on managed accounts. I think the fund of managed accounts structure, which is effectively the institutional offering - that is what has most appeal at the moment - really does seem to be addressing many of the concerns investors have around transparency and control of assets.

So, we have stated today that the principle focus is into the funded managed accounts platform and that is a slightly different format from the typical fund of funds fully diversified investment proposition. It has the ability to be much more guided by us or if the client wants some degree by the client. It also, because of the structure, has the ability to be much more tactical and dynamic in terms of asset allocation. Some investors are looking to completion portfolios, so really they will construct the mix themselves through the managed account platform in terms of asset allocation, and we will be their point of access in terms of manager access, of course, using the platform to manage risk and report to them.

So, on the open-ended versus guaranteed: I think for the six months as a whole you are broadly correct. I would expect that to be roughly the balance. The second quarter was more skewed to open-ended because we did not have any big global offerings in there of anything, which tend to be guaranteed products. So, for the six months, yes, I think it is probably a reasonable mix for the second quarter - that was probably slightly overweight open-ended. Having said that it will depend on regulatory markets and regulated products. Many of our regulated products are open-ended on short products which would skew towards the open-ended.

Bruce Hamilton: Thank you.

Operator: We now go on to Hayley Tam of Citigroup. Go ahead Hayley.

Hayley Tam: Morning Peter, morning Kevin. A couple of quick questions please on the mix of private investor sales versus redemptions. Firstly, in terms of the new initiatives you have outlined, the UCITS fund and the regulated products, etc, could you give us some idea of the timescale for that and whether you expect that to be additive to the current trend in gross inflows or simply helping you maintain that?

Secondly, in terms of redemptions, they did seem to come down quite significantly this quarter to levels we have not seen for a couple of years. Could you give us some comment in terms of what you are seeing in terms of investors' attitude - they are sort of sitting on their hands there we think; there are not much more redemptions from here - would be great, thank you.

Peter Clarke: Thanks Hayley. I think the question about additive or constant in terms of things like UCITS is quite a typical answer that UCITS will be additive. UCITS is an example of a product structure into Europe where we have not marketed onshore products and where there is significant demand. Interestingly some of that UCITS demand is not just from private investors; there are - I think I have mentioned this to you before - institutional investors who want UCITS product, particularly through the managed account structure.

So, I think UCITS is incremental in some territories. Europe, Taiwan obviously is completely new market and will be additive. In some markets we will just see people taking the onshore product offering instead of the offshore, I suspect.

On redemptions, yes, they were markedly lower in Q2. I think the institutional redemption profile we flagged very heavily so we expected that

to come down. The private investor lower redemption rate is, I think, simply a function of the fact that AHL has seen flat to positive performance in the second quarter having seen some negative performance earlier in the year. So, investors who felt they had taken the moment to ride the performance of AHL and switched into something else have all done that now. I think people are familiar with the dynamic of AHL, so people are not coming out. They will be staying in or increasingly coming in.

Last point on open-ended products, of course, is, as I said before, open-ended product has a higher velocity of FUM in and out. It is more performance sensitive because by definition people can come in and out more readily and they tend to do that on a slightly higher rate. It has obviously been an encouraging sign that we are not seeing redemptions out of AHL products at a time when AHL is flat against the rising equity market. I think people understand that dynamic.

Hayley Tam: Thank you. I understand if you cannot say anything more, but in terms of the scale both in dollar billions and also timescale on your new product launches, is there anything you can say to us there?

Peter Clarke: Well, indeed these are open-ended products, so once they are up and running they rise and fall with our success and demand, so I think we will see as the products become established - I would hope - significant inflows into them. So, there will be a phase during which people will have a new opportunity to access AHL through a regulatory format if they not hitherto had and that will prove attractive. So, I think there will be a build up phase there which will undoubtedly be additive. The timetable for that will depend on the timetable of our performance, Hayley, I would not want to speculate on that, but clearly longer term we do feel that UCITS will be a very important onshore European product format for us.

Hayley Tam: Great, thank you.

Operator: We now go on to Sarah Ing of Singer Capital Markets. Sarah, please go ahead.

Sarah Ing: Hi Peter, Hi Kevin. A quick question on the regulatory capital surplus: you made reference to it being in excessive of \$1.5 billion at the end of September, I think it was \$1.7 billion at the end of March, can you just comment in terms of the movement within that please?

Kevin Hayes: Sure, Sarah. The basic movement is we paid the dividend and that would have taken our regulatory surplus down slightly, offset with some other minor movement.

Sarah Ing: Sorry, could you repeat that last bit?

Kevin Hayes: So, we paid the dividend, there has been some other minor movement but nothing significant. No real change in our regulatory capital regime and what you see at March is generally the general charge. There is no particular change in the dynamic as at March.

Sarah Ing: Okay, thank you.

Operator: We now go onto Andrew Mitchell of Fox-Pitt Kelton. Please go ahead.

Andrew Mitchell: Yes, thank you. Good morning. A few quick questions: I was wondering if you could comment on the net fee margins on the new products compared with the existing ones. Looking at the short details it looks at though they would be somewhat lower.

Secondly, I wonder if you could update us on the level of external financing to the funds now and the committed purchase agreements. Then lastly on the dividend, I do not know if you want to make comment on that at this stage.

Peter Clarke: Okay, Andrew I will take the first and third, and I will give Kevin the second. When you say net do you mean net distribution or do you mean net of operating spend?

Andrew Mitchell: I meant net of distribution.

Peter Clarke: Okay. The answer is that net of distribution costs - there is not a dramatic difference in terms of the margin for Man because if we are selling an onshore open-ended product the distribution fees are lower. The headline rates are lower as well because there are not structuring product charges in the same way. So, net does not make a great deal of difference. Open-ended products are very resource-intensive to establish which is why you do not see many providers establishing them. There is a lot of fixed cost associated with that, but that fixed cost is cost, infrastructure and resources that we already have. So, net, I really do not think that once we have got scale and open-ended is going to make a big difference to our overall margins.

On the dividends I would really just remind you all of the four criteria that we use when establishing the level of the dividends and obviously the dividend is something that we will be announcing with our interim results in November. We have got significant capital and we might take advantage of opportunities and grow the business with that capital, but aside from that there are four criteria which apply to our view of the dividend which you are familiar with I think.

The first is what regulatory capital surplus do we have; do we have a significant surplus? Yes, we do. Secondly, our liquidity profile because the dividend cash goes out to all the shareholders and obviously we have very significant liquidity - nothing has changed in our liquidity profile at all. The third criteria is what would the earnings of the business in the period during which we are selling the dividend for, and I think I have made it clear that the results turned out pretty much as we expected and maybe even a touch better than that. The fourth is the prospects for the business in terms of from here on.

So, those are the criteria and I do not want to get drawn on the dividend ahead of the time it gets declared, but I think if you look at the criteria and look at where we are you will see that we are in pretty good shape.

On the financing I will pass to Kevin.

Kevin Hayes: Sure. Andrew, the external leverage provided in the product is around about \$4 billion. Around about \$3 billion of that is in the IP220 and the

balance is in the institutional product where the investor is asking for a leveraged product to be built.

As far as CPAs, Committed Purchase Agreements, they have actually continued to reduce. At March we were about \$1 billion and they have reduced to about \$800 million. Still those have not been called.

Andrew Mitchell: Great. Thanks very much.

Operator: Okay, we now go on to Carolyn Dorrett of UBS. Carolyn, please go ahead.

Carolyn Dorrett: Morning Peter. Two quick questions if that is okay. First of all in terms of the institutional fee structure; I think you have guided in the past that the management fee level is likely to come down to between 60 and 80 basis points in the future. Because of the new platform that you are launching, do you think that is actually going to improve your pricing power? Are you now expecting less of a decline going forwards?

Secondly, could you just update us in terms of your plans for your spare cash in terms of potentially expanding into other fund types? Thank you.

Peter Clarke: Okay, thanks Carolyn. On institutional fees, clearly as you have heard me say many times, the fees are a matter of negotiation, clearly particularly with major allocators. What that reflects however, of course, is your competitive advantage both in terms of performance and in terms of the format that you operate the hedge fund return stream in, and, as I said earlier, on the managed account, given its ability to be tailored, its transparency and the control issues that it has, is particularly attractive. The problem with managed accounts is one of scale and outside the investment banks that is where we excel because we do have the scale in terms of assets to allocate and the resources in terms of managing, opening and monitoring managed accounts.

In terms of the fees, therefore, for us this is an opportunity to scale a product offering off a relatively fixed cost base and infrastructure. Managed accounts have quite a high degree of fixed cost associated with them, so the bigger the MAC the cheaper it is overall for the investors to access through managed accounts on that.

What does that mean overall for margins? I think it means that particularly whilst we are taking operating leverage out of a platform as we grow assets from here, we will see net margins for shareholders, as it were, grow. The headline rate to the investor is not going to be significantly downward. There are fees associated with managed accounts; our investors understand that, they recognise that - they also recognise that the scale operators can produce those more effectively in terms of economically effectively than the smaller ones. So, I think we are in a good place there. It is not in my mind a big margin move in either direction, but clearly it is helpful to us.

In terms of usage for spare cash, clearly there is in the current environment a lot of opportunity to do things. We have taken a lot of opportunity to organise our own business in terms of its relevance and attractiveness of what people want. I think the future of hedge fund investing for institutions and private investors has changed, I said that, I think we got something

which addresses that change - pretty much uniquely actually; certainly in our sphere of influence and where we operate in the world.

There are opportunities to expand our business in different directions. We always look at those and we are ambitious to ensure that we have a proper suite of products and content for our investors and, as I say, we are always looking at things. We have got a very strong business and we are not in a rush to do anything but if there is something compelling we are in a very strong position to take advantage of that.

Carolyn Dorrett: Thank you.

Operator: Okay, before we take the next question, if anyone has any final questions at this stage, could you please use this opportunity to press 01 on your phone keypad now. While waiting for those we will go over to Philip Middleton of Merrill Lynch. Please go ahead Philip.

Philip Middleton: Yes, thank you. I just wondered if you could talk a little bit about new products you are coming out with apart from AHL, because you have been talking a lot about people wanting liquidity and transparency which all makes sense, but what are you actually producing to feed into that desire which might diversify the product base somewhat?

Peter Clarke: Yes. Philip, good morning. The answer is that the managed account structure that I have been talking about as part of a client offering for institutional investors also forms part of private client investor as well. So, you would expect us to be, and we are, producing product which combines the two, in other words AHL and that platform, and we will do more of that. That traditionally is what we have been doing in the context of something like IP220.

The real point though is that the regulatory environment does tend to constrain managed accounts, either because of the absolute restriction of what you can produce or liquidity characteristics or whatever. The managed account platform is the easiest way of buying something that fits regulated format. So, in the first instance it is AHL because that is, to be honest, in our suite of products the easiest onshore regulated product, but increasingly you will see managed account content coming into that as well and indeed our up and coming launch does already do that.

So, it is an iteration rather than a step change in terms of the structured products and in time you will expect to see UCITS Man products into non UCITS markets as well, but as you probably know this takes a long time to structure and get regulatory approval for. So, the flash to bang on that is probably anything from 6 months to 18 months, so it will take a while for some of that to come through but in the meantime expect equivalent IP220 structures but in MAC format.

Philip Middleton: Okay, thanks. So, what you are saying is it takes 6 months to 18 months to get something into UCITS3 format? I thought that was quite a generous time to market.

Peter Clarke: The total new content to market, yes. The AHL UCITS product is not something we started thinking about in March. It is something that takes quite a lot of time to structure. One of the interesting points here - I think I

made it on the way through, but I will make it again now if I may - is that the regulator is getting, not surprisingly, particularly keen to ensure that they have thoroughly diligenced structures for onshore markets. That means, to be perfectly honest, that there are plenty of people who cannot get into those markets at all because their product, or they themselves, are not deemed to have the resources or credibility or track record. We can do that, we are doing that and in many markets we have been the first to get through a newly invigorated, if I can put it that way, regulatory oversight in these product launches.

The competition, generally, are finding that considerably harder so it is not just about product content and it is not just about things taking a bit longer to get done because that is true, the fact is some people just are not getting through at all and we can.

Philip Middleton: Okay, thank you.

Operator: We now go over to Keith Baird of Oriel. Keith, over to you.

Keith Baird: Good morning. I just wondered if I could just touch on AHL's performance because it is a subject of eternal fascination to people looking at Man in terms of what has worked in the recent quarter, what has not worked, where can it improve and what the medium-term outlook might be.

Peter Clarke: Yes, I am not surprised everyone focuses on AHL's performance, although it is probably unduly in terms of its impact on our share price. What has worked and what has not worked recently is what has not worked has been bonds and, to some extent, currencies, and what has worked has been the equity market.

AHL, as you are probably familiar with, is quite a fast trade up of markets and, therefore, it does not like markets which are oscillating in terms of direction, particularly when they do so very rapidly. We have seen some quite significant swings in currencies and in the bond markets. The equity markets have been more persistent in terms of direction. I mean AHL is obviously in different to direction but it needs some persistence of a market trend. So, overall the positive performance of AHL has been coming from the equity market and the negative performance offset to that, or in some cases most of that, is coming from currencies and bonds.

What does it actually want going forward? Well, it wants some direction in markets - it does not matter whether it is up or down - it needs some duration to those, and indeed some diversification across the assets so that the difficult environment of the risk on/risk off - you know, Monday everyone has got risk appetite and Tuesday they have not - that is a difficult environment for AHL. When things stabilise a bit, which they have been doing recently, AHL can extract return from market. So, it does not matter what the direction is from here on, but a period of more stability such as we are seeing now would be helpful.

Keith Baird: So, for instance, if we saw some prolonged trend in gold, oil or a weaker dollar - something like that - that would be quite positive for AHL?

Peter Clarke: Yes, correct. It is making money from the gold markets and many of the energy markets. The dollar is still a bit volatile, so dollar/sterling, for

example - you read something and it is 1.58, you glance back and it is 1.60. That is not a good environment for any trend-following system, so currencies have not been particularly fruitful but commodities have been positive, equities particularly and bonds negative. So, yes, a bit more stability a bit more sense of direction and consistency, that is where AHL would want to be.

Keith Baird: Is the asset allocation within AHL quite highly flexible and it would go where the action is, as it were?

Peter Clarke: Yes, within constraints which are set to ensure adequate diversification, but yes, it can make significant risk allocation. So, it does not net long and short. The aggregate risk of that can be quite volatile, yes.

Keith Baird: Thanks very much.

Operator: Okay, the final question at the moment is from Bruce Hamilton of Morgan Stanley. Bruce, over to you.

Bruce Hamilton: Thank you. Just two quick follow up questions: firstly on the private client gross sales of \$5 billion could you give me some sense of the geographical split - I guess it is more heavily Asia-skewed than typical given some of the big launches coming under Q2 with some sense of Swiss, Asia, rest of Europe, etc.

Then on the institutional business clearly you have indicated that the US institutional market is better and you do not really access that. Are you taking any steps to try and change that or is that something that is just a much trickier longer term issue?

Peter Clarke: Yes. On the private investor geography you are right. Asia-Pacific has been particularly significant. As you know we did a big Japan launch which was open-ended in the first quarter which was \$1 billion plus, so that had a significant impact towards Asia-Pacific, continued demand in Australia, where we have a new regulatory product, and Hong Kong, where we have a new product. So, Asia-Pacific - our traditional territories, if you like, in Asia-Pacific; Middle East has been reasonable but not particularly out of trend line; Europe I would say generally has been a bit quieter than typical, so overall a more of a skew towards Asia-Pacific than we would historically have seen and more of a skew to private investor which you have seen from the numbers. So, assume higher Asia-Pacific, and included is a Taiwan product in there as well which is new and obviously came to Japan.

In terms of institutional, yes we are under represented in the United States. We will continue to reconfigure our sales force into the United States. Historically we are up against the situation where US institutions were already highly allocated; we were late into that market and, therefore, we are really waiting for other people to trip up in terms of getting an allocation by default, as it were, from someone who has messed up.

The fact is that after 2008 institutional investors are reviewing their entire allocation strategy to alternatives and are selecting providers on a different basis. So, we think there is a new opportunity, as it were, to come in with something which is different - the managed account platform and completion mandate, for example - so we are picking up money there and,

indeed, some of the flows we have seen in H1 are US institutional inflows, but it remains in the context of the market there a very small participant in a very large market. We would expect that to change but probably not dramatically so in the near term.

Bruce Hamilton: Great, thank you.

Operator: Okay, that seems to be the last question for this morning's call. Peter, can I pass it back to you to close up.

Peter Clarke: Okay, thanks. Thank you everybody for listening, I hope that has been a helpful run through of what we are seeing. We have spent a lot of time on the current situation and the prospects which was exactly right because, as I said at the beginning, the financial results are essentially backward looking. We have made significant progress, industry sentiment has materially improved and, as I said earlier, we have continued to lead in terms of private investor inflows.

For institutional inflows we are entering the second half which for six months, I said, we will see the turning point in net flows for institutions. I remain of the view that that will happen. Potentially if we have got our managed account platform in the condition that I think it is in, our allocators agreed with that, and I think we will see some significant inflows on to that platform over the course of the second half.

So, thank you very much for listening and have a good day.

Operator: This now concludes our call. Thank you all very much for attending.