



Event: 2009 Preliminary Results

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Speaker: Jon Aisbitt, Chairman  
Kevin Hayes, Finance Director  
Peter Clarke, Chief Executive

**JON AISBITT:**

Good morning, ladies and gentlemen, and welcome to this meeting on Man Group's financial results for the year to end March 2009. For those of you who've been following the Company for a number of years, you may realise that I'm the only Manchester United supporter left on the Board now Stanley is gone. And I'd ask all of you to treat me with some sympathy this morning.

As usual I have with me on the platform Peter Clarke, our Chief Executive, and Kevin Hayes, Finance Director. Our agenda for this morning is as follows. I'll make a brief introduction. Kevin will review the numbers. And Peter will talk to you about our current status and strategy before we answer any questions that you may have.

As you know it's been an extremely difficult year for many businesses, particularly those in the financial sector, and inevitably the Man Group has been affected. Against this most challenging of market backdrops, the executive team acted promptly to protect our franchise. When volatility rose across the market in October and risk levels increased, we took the decision to de-risk our MGS product line to protect investor capital. And in March, management executed on a plan to reduce costs across the business that will result in \$60m cost saving in the current financial year.

In the face of these difficult circumstances our financial performance suffered. Funds under management are down. Management and performance fees are down. And profits are down. Nonetheless, we generated adjusted profits before tax of \$1.2b at a margin of 52% which we regard as a sound result in the circumstances. The Company, its business model and its balance sheet remain extremely strong. We have cash on the balance sheet of \$2.4b and regulatory capital surplus of \$1.7b. So overall, despite the turmoil in the markets, Man Group remains in good health.

Because of the resilience of our financial performance, our capital strength and our confidence in the Man Group's future, the Board decided in March this year that we would maintain a dividend for 2008/2009 at the previous year's level of 44 cents.

Looking forward, in order to take advantage of the difficult environment and build on our strengths as a leader in the field, we're moving to simplify and consolidate our businesses other than AHL, creating an integrated hedge fund management business which will reinforce investor confidence through increased transparency and provide choice by offering a broad range of investments, a high degree of flexibility and excellent service.

As you might expect, the Board has been fully engaged in the development of these plans and is fully committed to this strategy which we believe will strengthen our position and leave us well placed to win business at a time when many in our industry are finding life particularly difficult. Peter will take you through the detail of these in his presentation. But first, over to Kevin for the financial review. Thank you.

**KEVIN HAYES:**

Good morning. Thank you Jon. This past year we were strongly profitable. We maintained flexibility in our business model and we've remained well capitalised for the future.

Funds under management did decrease as we saw institutional redemptions increase as institutions look for liquidity in the market. As Jon mentioned, we did take the management action to de-risk the MGS portfolio which reduced funds under management by about \$12b. But we did see positive net inflows into the private investor products.

Our business model, as you'll recall, is predicated on having a significant amount of economics from management fees as opposed to performance fees. This is very different from the industry norm. It gives us a resilience in our business model as 75% of our pre-tax comes from our management fee income. About 60% of our funds under management remain in the private investor product, the majority of which are in guaranteed products which have shown, through rather turbulent markets, stability as investors have remained invested. And it gives us an adjusted pre-tax of \$1.2b for the year.

We've maintained cost flexibility in the business model. Many of our expenses ratchet down as performance come down and as flows reduce. And in March we took the additional action to reduce our fixed cost base by an additional \$60m, and expenses will be further reduced as a result of the platform that Peter will talk about a little later.

As far as regulatory capital and liquidity, we've maintained our excess regulatory capital of \$1.7b. And we've maintained \$4.8b of funding and liquidity, a combination of cash on our balance sheet and our \$2.4b committed facility.

As far as key performance indicators, we have four key performance indicators that measure the performance of our strategy. And I'll touch on aspects of each of the four in the presentation, starting with fund flows, moving on to net management fee margins, finally cost drivers and return on equity.

With regard to fund flows on the private investor set, as I said, we had net inflows in the private investor this year, unlike most of the competition in the market that saw outflows from private investor set. I think this talks to a number of different attributes of our business model. The stability of the private investor through the very turbulent markets was enhanced by the fact that they are in a guaranteed product structure. We saw increased sales of AHL in the open-ended product in the second quarter which then resulted, after very strong performance in AHL, in a slight increase in redemptions in the open-ended product in the third quarter as people squared off their portfolios for the year end.

Still very strong indications of flows. I think you see there the \$12b of MGS de-risking. We took the proactive step to protect investors' capital by de-risking that portfolio. And that obviously had a negative impact on our funds under management. At the year end, \$27.8b, around about \$11.4b in open-ended product and \$16b in guaranteed product.

As far as the funds under management as of 26 May, \$28.5b. And that's a result of seeing continued net positive flows in the private investor. And Peter will talk through that product set.

With regard to institutional investors, institutional investors we saw negative outflows. Unlike many of the competition in the industry, we have met our redemptions in accordance with the fund terms. This has subjected us to a certain amount of increased redemptions as some of our competition were unable to meet the terms of their products. We saw a reduction in inflows in the third and fourth quarter as many institutions stepped away from allocating further or increasing allocations into the hedge space. We obviously had negative performance, about \$5b, in reduction in FUM. However, the RMF products still beat the fund of hedge fund index for the year. We indicated earlier that we would have - because we have visibility on redemptions in the institutional set, around about \$3.8b redemption. So this has reduced our funds under management to about \$15.5b as of 26 May. And we have visibility on the further pipeline of redemptions through July of around about \$2b. So we are seeing a moderation in the redemption flows.

We'll move on to margins, starting with the private investor. Again, we have a very strong focus on the private investor business. It is a very high-margin business for us, predominantly in the structure product, the guaranteed product. Last year we had margins of around about 429 basis points. This year a slight decrease to 420.

The predominant change there is the change in mix, and we've talked about this in the past, the mix between the guaranteed product and the open-ended product, and we've broken out those margins for you to give you greater transparency. The open-ended margin, slightly lower at 365 basis points compared to the guaranteed product of 427. The difference is mainly made up of the difference in cost of sales between those two products. Obviously the guaranteed product has a higher cost of sales than the open-ended product.

So from a mix, we still see a mix change occurring, potentially in this coming year, with more open-ended products being sold. However, that is obviously a more scaleable product for us than the guaranteed product. I think the outlook going forward for margins on the private investor side, we're not seeing particular fee pressure from either the intermediaries or the investors, I think the investors having gone through quite turbulent markets. They're looking for suitable products that perform on a net basis. And clearly our products last year have performed. They're looking for capital preservation. And we have a pre-eminent franchise in the guaranteed product set. So we do not anticipate significant margin reductions or pressure on margins from here.

With regard to the institutional margins, last year our institutional margins were round about 100 basis points. They reduced to full year margins around about 94 basis points. There is a little bit of a change in the half, so we put that in this analysis that you actually saw in the second half margins slightly increase. That's really a result of some flows, some larger, heavier flows in the first half out of lower margin products. But I think the trend on the institutional side would be downwards. However, there is not a lot of transparency in the market at the moment as the institutions are not allocating so we're not really having a lot of discussions around margins. I think the concern for most institutional allocators is actually not around margin at this point. It's about the stability of their provider. And clearly having met our redemption flows in accordance with the terms of the product gives us huge amount of credibility with the institutional investor.

As far as the cost drivers, as I mentioned, we've maintained the flexibility in our business model. The larger expenses, sales commission and the bonus pool adjust with flows in FUM and performance, compensation is therefore down about 176. That automatically adjusts downwards. The other costs were up on last year. We did at the half year talk about some of the initiatives around technology. We've continued to build out our technology platform to get scale in our business. We've continued to invest in AHL, operating the new trading platform in Hong Kong and also enhancing technology and research in the AHL product. So unlike many businesses at this point in the cycle, we still have significant pre-tax margin and scale in our business to continue to invest.

Compensation as a percentage of revenue, as you see, is probably tracking pretty close to about 20%. Our pre-tax margin, 52%, shows the amount of operating leverage we have in our business. As I mentioned earlier, we did take some action at March. We reduced our cost base by about \$60m. That is in the run rate now. And we've announced today that we'll have a further reduction of \$30m in expenses, about half of which will be compensation-related and half of which will be non-compensation-related. And that will come in - the majority of that will come in as savings in this year, 2010.

I've talked about adjusted pre-tax profit. Obviously we had a number of impairments this year, so let me just walk you through those. The accelerated amortisation of MGS we talked about at the interim.

The impairment of Ore Hill, Ore Hill, as you'll remember, was an investment we made, 50% investment in a credit manager based in the US. Obviously the credit markets have become very difficult. Their main hub fund was recapitalised and we saw a reduction in FUM and fees and therefore we've impaired the goodwill related to Ore Hill. We still continue to see opportunities in the credit space. It is a viable manager. And it has two other funds, the Concentrated Credit Fund and Prospect Mountain which are two performing funds at this point. And our institutional sales have been active with investors around the credit space.

We've impaired the residual investment of 22m shares in MF Global down to the market price. That goes through discontinued operations. And at March we took a restructuring charge, mainly related to compensation expenses, acceleration of deferred, around about \$37m. That gives the adjusted \$1.2b pre-tax.

The tax rate, around about 20%. Historically that's been in the 17% to 18% range. We would see that trend down. A slight mix change from performance fees and some of the losses on the Seed portfolio occurred this year, but we'd expect that to trend back to about 18%.

As far, as I mentioned, maintaining the excess capital that we have, we've had financial discipline around our balance sheet. We've reduced the risk in our balance sheet by bringing down the seed money portfolio. These two pies on the left-hand side give the asset breakdown. As you can see, \$2.7b of cash and cash equivalents. Significant part of our balance sheet still rolls every day with our banking partners as far as cash balances. \$700m of Seed money portfolio, that's down from about \$1.2b last year. That has - about 80% of which could be liquidated within a 12-month period. So still remains a fairly liquid portfolio.

Loans to funds at March were around about \$373m. Today they're around about \$400m. The balance has not changed dramatically. And obviously we have the commission intangible which is down on last year of about \$300m. The balance of the asset base is then made up of goodwill, the largest being the RMF good will, around about \$620m.

On the right-hand side, you see a predominant piece of our balance sheet asset base is supported with equity. We have round about \$600m of debt issuance. And obviously what is not shown on this balance sheet is the \$2.4b committed facility which, as of March and today, remains undrawn.

As far as regulatory capital, this is a graph of the requirements for regulatory capital and the available financial resources to meet that requirement. We have about \$4.1b of equity. From that we deduct the various tier 1 capital deductions for goodwill and the commission intangible and affiliates to come down to our available capital. Our capital requirements, predominantly make up from our balance sheet a market risk, credit risk and an ops risk charge, around about \$1b. What this graph shows though is the stability of that excess throughout the year. And as a result of de-risking the balance sheet, we've actually taken some of the market risk and credit risk out of those charges as well.

So, in conclusion, we've maintained financial discipline to preserve the value of our franchise. A strong year, \$1.2b of pre-tax. We've taken action to reduce the fixed cost infrastructure. And we've maintained the liquidity of our balance sheet. We've de-risked the balance sheet. And we've maintained capital and liquidity to grow the business going forward. Thanks.

**PETER CLARKE:**

Thank you, Kevin. Good morning everybody. Our pre-close was pretty complete. And Kevin's taken you through a lot of the detail on the numbers. So I don't propose to go over the same ground again. But I do want to do a couple of things really, firstly to start by looking at some of the industry events that happened over the last year or so and how Man has navigated its way through those, and then really to spend time looking forward, about how we've positioned the business and our product range in order to take advantage of the future and, indeed, our anticipation for future industry flows.

So cracking on with that, we've listed here a number of the principal challenges that have been facing our industry, but indeed wider financial services industries, through the turmoil of recent times. And just picking those off one by one and showing how we've dealt with those.

Firstly, on the market side, much of the challenge around performance has its roots in market liquidity, as we're all familiar, as banks pull risk capital out, de-levered their own balance sheet, raised liquidity for their own purposes, of portfolios or for other requirements in terms of capital drivers. Some markets completely failed to operate for periods as well. And that's clearly a difficult environment for any investment management business to operate in, and many hedge fund strategies were impaired by that.

The bright spot for liquidity was the derivatives market, particularly the listed derivative markets and, of course, currency markets which remained highly flexible and liquid and much to our advantage, and AHL trending quite strongly. So our bias towards managed futures clearly helped through that backdrop.

The second area of concern has been effectively business risk, certainly in the hedge fund world. Many funds are reliant on performance fee income to make the economics of their business work appropriately. And with strong negative performance, clearly that business model has been somewhat impaired for many although for us, as Kevin pointed out, really we operate, and management fees and performance fees are extremely nice to have, but we can manage without them. Also many of them forgot to manage the liability side of the equation, running into problems as prime brokers either withdrew credit lines and/or increased margins which of course caused problems in terms of forced de-gearing.

Our own experience with MGS was positive through this in the sense that the managed account platform gave us the opportunity to pull money out of markets very quickly and efficiently, in conjunction with brokers and lenders into the product. So we have a strong and indeed probably an enhanced reputation with that community as a result of de-levering products in a fast and efficient way which cause no problem for our prime brokers.

We also managed to move our counterparty relationships pretty fast. We were nimble around some of the high-profile issues of the last 12 months or so and had no disruptions or losses associated with prime broker issues at all.

Redemptions was obviously a key issue as well for the industry, as investors sought liquidity in their own portfolio and obviously caused the hedge fund community and others to sell down to meet that.

Those who restricted liquidity to their investors are clearly in a materially damaged environment for some time to come. We have maintained liquidity across our entire private investor suite, which give us not only credibility to our investors but also to our distributors and other intermediaries and allows us to be back in front of clients, selling product in this market. And recent environments on the new product program, and indeed inflows that I'll come back to in a second, a demonstrable fact that our credibility there remains extremely strong.

Confidence, of course, was a big issue here as well. Governance concerns coming to the fore, transparency, custody and control of assets after losses, and scandals including Madoff dented confidence. RMF's institutional portfolio had an exposure to Madoff, as you all know. It was about 1.5% of RMF's assets and impaired the diversified product by about 1.5% in December of last year. Nevertheless, RMF, as we'll see in a moment, remained ahead of benchmarks. Our new business platform emphasised on managed accounts, the robustness of our guaranteed products all, however, means that we are in a good position of having confidence of our investors and our distributors.

Performance. Well, performance through the turmoil was mixed across our product range, better than benchmarks, reflecting some styles that did well, managed futures, of course, doing particularly well and hence the AHL number here. Positive 8% in our financial year. AHL had a very strong calendar 2008 but gave back some of that in the first quarter of this year, as you will have seen.

The core IP-220 product which is our core guaranteed private investor franchise which is shown here, it's a mix of AHL and Glenwood, down a little over 8% in the period. And the fund of funds platform, RMF, down over 15%. So clearly negative, but around 200 basis points higher than its comparator group which is, we've used here the HFRI Fund of Funds Index. So that 200 basis points of outperformance, don't forget, is after taking a 150-basis point hit as a negative impact on Madoff.

So whilst these returns are clearly below historical performance and below our expectations and below our investors' expectations for longer-term trends, they are ahead of most other asset classes, and particularly in the case of managed futures, and reinforced the point that managed futures have a place in all portfolios.

Since 31 March, the hedge fund industry broadly has continued, positive returns year to date. And we've also seen positive returns year to date in our fund of funds area. AHL is currently around about 11% away from high water marks.

What's been happening since 31 March, well clearly we shift now to the present before looking to the future. Private investor sales in this environment have been very positive indeed. Our ability to provide investors with attractive products in these markets is a function of the liquidity and transparency that we have, particularly in our managed futures platform but also through the other hedge fund investments through managed accounts. And critically we preserved investor liquidity. I can't overstate the importance of that because that does give us real credibility and also enormous differentiation in a market where many of our competitors have not been able to maintain liquidity.

So we saw \$2.6b of private investor inflows. That includes a big Japan launch of nearly \$1b which doesn't start trading until 1 June. Geographically, Asia Pacific has been strong, as frequently it is to us. Latin America and the Middle East also contributing strongly to sales through that period. As importantly, we've seen private investor redemptions slow down. We saw about \$0.8b of private investor redemptions in the period since 31 March which reflects a significant slowdown in terms of private investor outflows and doesn't surprise me at all.

Those MGS products which moved to permanent cash have been -- we've been offering new product. We have a credible product. We've been in front of our clients, offering them switchers, offering them products which can perform in these more challenging markets. And we're getting something like a 30% recovery rate of assets from permanent cash vehicles back into new Man product which goes again to the credibility and differentiation point. It also proved out the guarantee for those products. All our guarantees of principle, so many of them locked in. Previous trading gains are all totally intact, totally secured, fully collateralised, no impairment to the guarantee structure at all.

On the institutional side, well sales have remained muted. Since 31 March we've had a couple of hundred million dollars of inflows. So still very modest. Some investors have sought to take advantage of market opportunities which are clearly now arising. Institutional redemption since 31 March, as I anticipated at the call at our pre-close statement, did come in over \$3b, \$3.8b in total. That was pretty much in line with what we expected. However, the much more significant point I think is that those are dramatically slowing. I know there are one or two commentators out that have said they're disappointed that we're anticipating a couple of billion dollars of outflows from here on from our institutional investor base. I believe that's pretty much it. I view that as actually an extremely positive signal to be able to give you today.

On the distribution side, the world map of Man's offices around the world. We've got circles on here which demonstrate the size of the assets under management, divided by private investor and institutional investor. You can see how our weighting for the institutions is very much European and our weighting elsewhere in the world is very much private investor, particularly powerful in the environment that we're now operating in. Our long-established presence in Asia Pacific driving that high level of assets.

I don't propose to go through all of the regions here, but the drivers reflect local demographics, a dearth of relevant and credible alternative providers, and a long history with regulators and product formats that work in a multitude of territories.

We have investment management operations and infrastructure in the United States, the United Kingdom, Switzerland and Asia. We're therefore very able to address regulatory change in those markets, including onshoring of product. We have a number of onshore products in most territories. We have UCITS3 product here in Europe. And we can accommodate the requirement of both regulators and investors in the current climate for highly liquid product content. We'll continue to invest in distribution. We're looking at opening another office in Europe and another one in Asia over the coming months.

Kevin mentioned we're continuing to invest in AHL. We have the luxury of a strong capital base which allows us to continue to invest in our business. We've been actively doing that. AHL, as you well know, is a core part of our business. It's also a key component of much of our product offering. AHL is the world's largest managed futures manager, with one of the longest track records. It is both of those things because we have committed to develop and invest in that business for many years, over two decades now. And we continue to do that.

So during the year we've recruited more people into the research team. We have continued to make progress with our Oxford Man Institute. We have expanded the trading floor, including an Asian, Hong Kong-based trading base for Asian markets. And increasingly we're seeing new products becoming available for AHL. This has been driven by the regulatory enthusiasm to have OTC product cleared centrally and listed on exchanges. That is a tremendously powerful backdrop for managed futures managers generally, and AHL in particular as the largest of

that community, giving us access to liquid counterparty, centrally counterparty-cleared instruments and therefore a new set of instruments that we can trade, giving opportunity and increasing capacity for our product.

As well as adapting the business, the product range, rather, we've been adapting our business model. We talked at the pre-close about what we were proposing to do to create a new integrated hedge fund platform. We've executed on that plan. The logic behind that is spelt out in this rather complicated-looking triangulation of interest, just to spend a moment going through that. From the investors' perspective, our product investors' perspective combining investment professionals, removing barriers, changing structures, allowing us to create a unified management business has created a business with great power and breadth.

We've also addressed investor focus on governance and control of assets. We've enshrined risk management at the same level as investment management, both reporting directly to me, emphasising the use of managed accounts, and focusing on more transparency and better control for those investors who require that. We've long used managed accounts at Man, as I think you're all familiar with. And over 10 years of that we have the expertise and resources to deal with that. I think many people are talking about managed accounts and proposing to offer them don't actually realise the work and resources that goes behind managing those.

For our existing investors, the mandate remains unchanged although the new investment process will apply to them. For new investors, there'll be a common investment process, common investment philosophy across the geographies, across the product set, providing them access to an extraordinarily broad product suite that Man has on offer. Systems will migrate onto a pre-existing platform. We're already operating the platform that systems will move to. So there's no significant IT risk or costs associated with this at all.

For shareholders, perhaps most relevant for this audience, the new platform provides an efficient way of maximising resources, broadening investor choice and reducing overheads. In addition to the \$60m we announced in the pre-close, we have, as you've heard and seen, announced another \$30m of run rate savings associated with this new platform. The platform provides flexibility to broaden investment content, but it also does so without the requirement to increase fixed cost which is obviously good for operating leverage as we go forward.

For the underlying hedge fund managers, we will represent the largest allocator in the world, with an investment base which is broad scale and diversified, so with stability in terms of allocations. We are an experienced operator of managed accounts. We know what that entails. And we're less operationally intensive than some of the newcomers to that in terms of what's required of underlying managers. So we will continue to be viewed very favourably as an allocator by our underlying hedge funds.

Ultimately the new platform from the investor is really about providing them with confidence, confidence and choice. I'll come back to confidence. The structure of the new business is on the left. Structuring and distribution remains centralised. AHL is unaffected. Everything else sits within the new business. We've separated fiduciary investments from our risk and principal investing activities. Both will be important components of the development of our business as we expand our investment management content and the industry continues to evolve. Combination of that broad, centralised platform, within an overall framework of the operational scale of Man, will provide the confidence that investors are seeking in today's world when they select their investment manager.

The investor reaction to this has been overwhelmingly positive. It's compelling, it's different and it's highly relevant to investor requirements. There is a lot of interest in this new platform. It's operational during June. And the first products, which I'll tell you about in a moment, will be coming off that platform in June as well.

So I talked about choice as well, there's two components to the choice that we are offering the investor here. The first is choice of content. We've demonstrated that choice here really by a liquidity spectrum. We've done that because that's how we look at our product offering. It's also interestingly, as many of you will know, the way that many investors are now choosing to allocate capital and designate their portfolio. So getting underlying content is the discriminator, and looking at liquidity is the discriminator.

In our world that spectrum operates from the highly liquid end managed futures, global macro and some big cap long-short, through to structural alpha opportunities and new alternatives illiquid distress content. For example, we can offer the complete spectrum, but the market at the moment is focused on the liquid end.

The second level of choice is on how you access that underlying content, through a managed account, not through a managed account, with targeting managed account, high levels of managed account, a transparency and access, because of the flexibility it gives us. But we won't exclusively use managed accounts, and also to suit the regulatory capital fiscal requirements of an investor in whatever territory their investing from.

So it's at this level really where the new investment process provides the real flexibility and operating leverage that I was talking to earlier. It also allows us to address any further evolution in investor needs as things develop from here.

Immediate impact on the product pipeline is illustrated here. As I said, the market is searching for highly liquid content and therefore new product is coming out of our pipeline to meet that requirement head on. That means managed futures, global macro as a key focus here. We've illustrated two products off the platform here. The first is a small pool of managed futures managers, non-guaranteed, although we can also do a guaranteed format. This non-guaranteed format was the structure that we adopted for the very successful Asia Pacific launch that I mentioned earlier.

The second illustration here, which is going to be a global launch, is a combination of managed futures and global macro actively managed to take account of opportunities as markets change, and will be the basis of the next global launch. Ultimately the success of our new platform will be a function of launching and managing a product range which suits investor needs, and focuses on that flexibility and breadth that we have within Man.

So what does that mean for the future? Well starting first with what's happening in the industry and then reflecting on us. On the left hand side here we've plotted our own assets under management in the bars and the industry's assets in the dark blue line. And you can see a pretty strong fit between the two.

What's important is what's going to happen from here. We've illustrated the Casey Quirk [bony] forecast between a base case going to \$2 trillion and a bear -- sorry, a bull case, a bear case going to \$2 trillion and a bull case going to a little under \$3.5 trillion by 2013. And I don't know if that's right or wrong.

But what is clear is that assets -- institutional investors are sitting on low risk, low return assets. They simply can not maintain that position for any great strength in time, because they have a massive liability shortfall arising from that. Money has to come back into the markets. The question is where is it going to go and who is going to get it.

For our perspective, clearly the big winners, as you can see on the right hand side, have been the big players. That's historically played out with the focus on governance structure, regulation, business risk which people are looking at now not just performance. I think that trend is likely to only continue and probably reinforce.

From our own perspective we've seen institutional outflows slowdown, we've seen private investors turning to positive inflows and therefore, whether or not this bottoming out that Casey Quirk would suggest in 2009 is precisely right on the date, I think there is every encouragement that the prognosis remains very positive.

Firms that can address weaknesses in prior structures now provide broad and flexible content, deal with regulation, provide confidence to investors and differentiate their product offering by having weathered these storms by honouring liquidity terms, ought to be in an extremely strong position. And clearly Man has met all of those criteria.

So the outlook, well first the news that you all already know, which is that we have lower assets under management and therefore, we are expecting lower management fees in the period. The Street already has their forecasts in from that, which have already worked through.

We've addressed our cost base to reflect the lower level of assets under management. We've demonstrated a flexible product range, which has continued, clearly, to have strong appeal to investors. We have financial strength, as Kevin talked you through, power to invest in our business, power to expand our business, take opportunities as they arise in a consolidating industry, where we see value.

The new integrated platform is forward looking. It's appealing. It provides choice to investors and operating leverage to our shareholders. So we would clearly see ourselves as well positioned for growth in that environment.

So I am going to stop there and offer it back to the floor for questions. Thank you very much.

## **Q&A Session**

### **Carolyn Dorrett, UBS:**

Good morning, Carolyn Dorrett, UBS. A couple of questions, if I could take them one at a time, first of all in terms of the \$2.6b of new private investor sales that you've done since the end of March, could you just give us a rough indication of how that splits between guaranteed and open-ended?

**Peter Clarke:**

It will be predominantly open-ended, principally because that launch that I mentioned, the big billion dollar launch is an open-ended product offering. But we continue to see appeal for guaranteed products either pure AHL or AHL Plus products in the period. So it will be -- more than half will be open-ended, but also significant guaranteed comparing to (inaudible).

**Carolyn Dorrett:**

Thank you. [Now we've] seen the AUM drop since the end of March, you've got the sales figure in there, can you just give us an idea of the other moving parts that contributed to the decline in AUM?

**Peter Clarke:**

We saw institutional redemptions of around \$3.8b, institutional inflows of around \$200m, net inflows in the private investor sales of \$2.6b and redemptions of \$0.8b. I haven't done the maths fast enough to know whether that leaves you with anything else to talk about, I think that's pretty much it isn't it. A little bit of foreign exchange and performance would account for the difference, but flows are the key component to that.

**Carolyn Dorrett:**

Okay. With FX being positive and investment [forwards] being negative.

**Peter Clarke:**

FX being slightly positive yes correct.

**Carolyn Dorrett:**

Thank you. And also in the past just in terms of the impact of the investment performance at the moment, I think in the past we've talked about the fact that weak investment performance doesn't tend to impact forward sales until about six months of weak investment performance. Do you think that number still holds?

**Peter Clarke:**

Your right we've tried to model this over a number of years. I think we've also learnt that those models don't necessarily apply in today's world about what investor behaviour will be. I think there is a different metric at work here at the moment, and that metric is people have looked at losses that they've seen and illiquidity that they've seen in their portfolio, and they've sat back and said how do I stop that happening again.

I need liquid content. This may be of short duration but currently the current focus, I need liquid content, I need transparent content, and I need something which has demonstrated that it can perform and remain liquid in what may remain troubled times. So I think the motivation for the managed futures, and global macro products that we are seeing, is all about portfolio rather than chasing performance. I think that is the key driver at the moment, its confidence and its portfolio construction.

At some point people will default back probably to looking at historical performance track records when they make decisions. I don't know when that will be. But I don't think at the moment the key driver is the last X month's performance of our product offering. It's actually firstly did they survive, did it do what it should have done in terms of diversification, did it remain liquid? Secondly, do I want some of that in my portfolio? And thirdly, I hope that's going to perform too in the future of an uncertain world? But I think it's pretty much in that order at the moment.

**Carolyn Dorrett:**

And finally just with AHL, obviously some of the AHL money is for institutional mandates can you give us an idea of what that percentage is, and how you expect the institutional versus private client to trend over the next 12 to 18 months?

**Peter Clarke:**

There are institutional investors in AHL, long term institutional investors in AHL and indeed we are seeing increasing institutional demand for AHL. Currently, I am going to say, and this is a bit of a guess, that the institutional component of AHL will be 10% or 15% of the assets, not dramatically more than that. We've got some big allocators in there. But the bulk of AHL remains a private investor format.

I think there is the prospect for AHL to be quite a compelling institutional product offer. And certainly we have consultants who are recommending institutions to go into managed futures, and obviously AHL being a leader there we'd expect to get some of that flow. That shouldn't have a dramatic impact on margins though, because we do maintain a premium pricing for AHL whether it's institutional or not.

**Haley Tam, Citigroup:**

Morning, it's Haley Tam from Citigroup, two questions please. First hopefully just a very quick one, you have mentioned the MGS positions in cash which might be re-gearred at some point. Can you tell us what those balances actually were at the year end?

**Peter Clarke:**

\$1.5b something like that.

**Haley Tam:**

Thanks. And the second question is really about the new integrated manager initiative. You have said that managed accounts are going to be a big focus from here. Now I think from memory maybe only 10% to 15% of RMF accounts historically were managed accounts. So really just wondered in you could give us some idea of where the new managed accounts, underlying managers, are coming from?

And to follow up on that as well, you have mentioned a lower cost base, hopefully, as a result of this initiative. I was wondering if you could give us any idea really in terms of what impact there might be on the revenue margin side of the new structure. You had mentioned perhaps private investor products won't have guarantees from here, which presumably will lower the fees. And I think managed accounts in general in the industry typically earn lower fees than fund of funds have historically. So any help you can give us there would be much appreciated.

**Peter Clarke:**

Yes okay. Good set of questions, I think I can help you on that. Firstly RMF has long operated managed accounts, but has not -- it's not been a significant component of their asset base that will change. MGS operated almost exclusively on managed accounts. And Glenwood didn't really use the managed accounts. So we are going to end up with a combination there which will reflect really what people want.

From the private investor side we would expect to have the vast bulk of our assets ultimately through managed accounts because of the flexibility that provides us. It removes us from the business risk of being gated on the underlying hedge fund, which is obviously very powerful, one of the main drivers that people are suddenly talking about [MAC], because it gives you control of the asset.

For the institutional it will be very much a matter of choice. For the institutional we offer we would tend to offer fully transparent product if that's what people want, but we are not turning our backs on being able to allocate outside the managed account structures where we believe that makes sense.

And indeed moving to your next question of who is offering MAC's and who isn't how do you get them. Some strategies don't lend themselves very easily to a managed account platform, some do. So clearly our bias in terms of where we get managed account platforms will be to the more liquid strategies where that's more readily available, more relevant in terms of data feeds and custody and control.

But there will be a component which is not in managed account platform. But, as I say, so for the private investor overwhelming majority intended to be MAC, institutional investor will largely be driven by institutional requirements as to whether that's the way they want to go or not.

On the -- I'll come back to the guaranteed and un-guaranteed question, on the MAC however, you said that maybe they are lower margin. It's actually not really how it works. What -- if you are a platform provider of managed account access you will charge a fee which will not be an investment management fee it will be something lower typically than investment management fee, because you are giving reporting and access, not investment management judgement.

We are not proposing to just offer direct MAC and MAC access in the first instance we are intending to use it as a tool for investment management. So we will keep an investment management fee around that. And indeed typically we charge incrementally for the administration of a managed account, because typically it is more resource intensive, and indeed it may reflect -- there may be a reflection in the charge in the underlying manager as well to administer it. So there is actually a generally incremental fee to be paid for managed accounts, but it doesn't really add much to our margin. But it's not a negative it's probably a neutral rather than a negative.

Last point on guarantees, I wasn't really trying to give any guidance on format between guaranteed and open-ended, I was simply pointing out that the big recent product was open-ended. It could have been constructed as guaranteed, purely a matter of what the investor appetite is, what the distributor wants at the time. I am in Japan next month, and I would expect those distributors to be putting guaranteed products out actually next time, but we'll see.

**Haley Tam:**

Thanks. Can I just follow up quickly on one element there? You have said that therefore the managed accounts could come from a whole range of funds across the RMF, Glenwood and MGS portfolios in the past. Clearly it's the RMF portfolio which had the best performance in the past. So if I can rephrase that, of the proportional of RMF underlying funds that did allow you to manage them on a managed accounts platform before, how much has that increased by now?

**Peter Clarke:**

It won't have materially changed is the answer currently, because that's a function of investor appetite. I think as we see inflows, institutional inflows that will go up.

**Philip Middleton, Merrill Lynch:**

Thanks. I just wondered could you describe what impact the recent beta rally we've had has had on investor demand, because one thing you are beginning to wonder is do people think oh its all over I can go back into the un-hedged beta products, it lost me so much money because we are in bull market again. Have you noticed any implication of that?

And secondly why have people been issuing the guaranteed products, because it seems to me that's exactly what people would buy at the moment. It seems very peculiar investor behaviour.

**Peter Clarke:**

The first question, your guess is as good as mine. Clearly from what we are seeing from our perspective, as I was saying in the answer to Carolyn, investors really are looking at what can perform in their portfolio in continued difficult times. There is a key piece of that which is driving our investor sentiment. Whether we are gaining or loosing from a beta rally at the moment I don't think is a key driver to us to be perfectly honest [Philip]. It may become one if the rally becomes protracted. And clearly we'd start offering more beta component to our product. We are offering product that people want to buy. I'm not trying to guess the markets. But we are trying to produce something which has the prospect of performing in all different market environments. So if that's what people want that's what we'll move to. But at the moment its portfolio driven rather than, I think, asset driven return chasing or indeed forecasting what assets are going to do well.

On the second question, again, I think just because a big distributor chose to do an open-ended product I don't think we should assume means that we are going to do a lot of open-ended product. The fact is that an open-ended product with highly liquid content meets some of the investor's requirements at the moment. I agree with you that the principal protection of a guaranteed product is also rather appealing in today's world, and there will be a mix of both of those. So one big launch open-ended don't think that's an indication of a long term trend though would be my guess.

**Chris Smith, Jefferies & Company:**

Yes, morning, Chris Smith at Jefferies. Just a couple of questions please, firstly just looking at the managed accounts again, just following on from Haley's question, in sort of de-brief I am sure you've had over MGS is it the case there were specific problems there with what, effectively is you said yourself, a managed account business or are there more fundamental issues and changes you've got to make going forward and in this new vehicle? And the other topic really was just, because that bit about seed investments and what the trends are so far this year, and what you feel things -- how things are going to develop in that area in this current financial year. Thanks.

**Peter Clarke:**

Okay. Well the MGS issue was a performance and volatility issue, which was one of the reasons we got it and caught it and could act on it was because we invested through managed accounts, they were the solution not the problem. Because that enabled us to track underlying exposure, map that to an increasingly volatile world, and decided that we'd better de-risk the investor. And the fact we were in a managed account allowed us to do that very fast, so we pulled a lot of money out of the markets in a very short period of time without the risk of getting gated, and without disrupting markets and without impairing client capital.

So, the managed account, as I say, was really a very, very powerful tool as part of that. And everyone can see that, and so that's driving a lot of demand actually. I mean to say, well if things start getting difficult I want the managed account. I got custody of the assets in case the counter party goes bust, wherever your -- whether the fund broker goes bust effectively, and I've got speed of allocation and de-allocation if the markets get choppy. So it is the solution and so that the porting across of managed accounts to the new business is exactly to create that sort of flexibility, through the managed account platform. The lesson is to be active in investment management. And that's why I was pointing out that all of the new products are actively managed products, so that we can address constantly the leverage that sits in those products and not just sit the leverage, but use that

as part of the investment management proposition as well. So I see some key learning coming across from that. On the seeding platform maybe Kevin could say a word.

**Kevin Hayes:**

We've obviously, as I said, reduced the risk on our balance sheet quite significantly. I think that while there is opportunity in the market, as Peter has mentioned, with the new platform looking at new managers, I would expect that to stay pretty stable from here.

**Chris Smith:**

Thanks. And in terms of movement on those, the losses -- it's unlikely, hopefully unlikely to repeat therefore.

**Kevin Hayes:**

Well obviously at a lower level, so the magnitude of the losses would be less. We'd mark that portfolio at [the market] is generally very short term and very liquid.

**Andrew Mitchell, Fox-Pitt Kelton:**

Andrew Mitchell at Fox-Pitt Kelton, three quick questions, I am just wondering on the new management platform, the way you presented it seemed slightly different from the March presentation when it seemed to be very much as a managed account offering, now you are talking more about it as an investment management offering. I am just wondering that may be a misperception on my part, but has it evolved somewhat since then?

And then secondly on the new product fee margin, I think you've been pretty clear on this and in what Kevin was saying about prospects for fee margins. But can you be absolutely clear that there is no underlying fee erosion, because every article you seem to read about the hedge fund industry is talking about that sort of covert fee margin erosion on new products.

And then finally on the cost side, in the detail of the description of last year's performance I think you talk about the increase in variable comp relating to management fees. And I am just wondering despite the cost measures you've taken whether looking forward, given common market expectations, the comp ratio you think should come down, but is there a sort of countervailing investment type pressure that's going to mean that -- and a need to give people variable comp, even though maybe its not apparently earned in the near term, whether that's actually going to hold at around 20% still.

**Peter Clarke:**

Okay. Why don't have a go at first and second and Kevin have a crack at the third or pick up anything I missed on the second. Firstly in terms of the way we've described the platform there is not intended to be any distinction between them. I think all that's happened is that we've gone into a lot more detail here, which gives you an idea about why the platform is compelling.

The managed account component of what we do remains a component of what we do for two reasons. Firstly, it's an investment management tool, as we've touched on, we intend to use it, continue to use it for that. The institution is increasingly saying they want managed accounts they want their own segregated accounts. And this platform allows us to do that too.

So maybe I've glossed over that part of it Andrew, to talk about the sort of private investor component, which is really where the flows are coming from currently. But there is no -- not intended to be any change of emphasis between then and now at all. We are just reflecting sort of prevailing flows and how we describe it.

On the margin side I'd say two things I think just for absolute clarity that we are not seeing margin pressure in the private investor environment. So that's a very clear point one. We are not seeing it because investors don't chose one product or another or distributors for that matter, by the marginal cheapness or expensiveness of the manager. They chose it because they think that that product is going to perform and is from a credible supplier, and in this market one that retained liquidity.

That's they key deciding factor. Of course, they look at net performance, but they are interested in whether the net performance meets their requirements. So in that environment there is no fee pressure it's more a question of do you buy the product, do you believe the investment management proposition or not. That's the key deciding factor.

On the institutional side the institution clearly wants to negotiate on fees, and we negotiate on fees with institutions. And there has been a downward pressure on fees in the diversified fund of funds not in the satellite products, but in diversified product offerings. Once again, however, currently for a period certainly, institutional investors are looking at managers with the scale, stability, structures, regulatory coherence as it were, which

makes sense for them as an allocator. They are then deciding if that's the choice, they are going to talk about fees.

Historically fund of funds was so tightly packed that arguing about fees could mean which quartile you are in, in terms of performance? Well RMF is 200 basis points above the average, so you can argue as much as you want about the fee you are not going to move the quartile; it's still going to be right up.

So, fees still important, but at the moment people are in a widely dispersed, highly dispersed return environment people are making selection by manager and then arguing about fee. What that means long term in terms of fee pressure, I don't know, but in the short term I think it means that those people that have performed and stayed liquid will see significantly less pressure than those that didn't, for him pricing is going to have to be a key component.

Cost is over to Kevin.

**Kevin Hayes:**

Sure. With regard to compensation I think the key point here is we have a performance based compensation model. We -- when you look at net management fees and net performance fees we've generally attributed around about 20% to the performance fees. Obviously when you have a bit of a mixed shift you'll end up with a little bit higher allocation to the management fee component. But I think the underpinning of this is, as you've seen from the results, the bonus pool went down by about \$176m reflecting the decrease in performance. So it is a variable model as with many of the components of our P&L. That's part of the strength of the flexible business model that we have, so as far as trending, I think we've talked about 20% of revenue, you can see that in and around that range.

**Bruce Hamilton, Morgan Stanley:**

Thanks hi, its Bruce Hamilton, Morgan Stanley. I've got three questions, firstly on the -- just thinking about the dividend outlook, obviously you've got a very strong balance sheet, improved liquidity, yet if you maintain the dividend it looks like its going to be uncovered versus 1.8 times guidance. Can you help us think about that, and when might you make a decision on that point, point one.

Secondly, and possibly linked, is the message on M&A still that you actually see better opportunities to access capacity through distribution agreements rather than deploying cash in deals? And if so can you give us some sense? You mentioned global macro, but which are the sort of other areas where you see opportunities or themes that are attractive?

And then finally on to the remaining financial leverage in both RMF and the guaranteed products, can we just get a number whether you still suspect that, that could drift down? And then against that, if you've got \$1.5b of cash in the MGS how much on a re-levered basis could that bring back into the assets and (inaudible). Thank you.

**Jon Aisbitt:**

Let me answer the dividend question. Some things haven't changed, some things have changed. What hasn't changed, you won't be surprised to hear, is that the framework in which we consider the dividend remains the same. We look at four key things. We look at our regulatory capital position. We look at our liquidity position. We look at the earnings in the current period, and we look t the prospects for earnings and for other financial measures in the future. That hasn't changed and that won't change in the course of this year.

One thing that has changed as a result of these very difficult and stressed markets is that whereas, I think I sat in this room, and said it was a target from the Board's perspective to move to 1.8 times covered dividend in the course of the next couple of years, as we adopted a policy of paying out a progressive dividend. We don't think that's appropriate in the current market conditions, and you won't be surprised to hear that. We don't have a target cover ratio for our dividend.

As to what we'll do in the future and when we'll know what we'll do in the future, I guess the answer is we'll know when we know. We certainly don't know today, and we are not in a position to give any guidance on that.

I would draw your attention to the fact that the Board is, I think, both sensitive and thoughtful on this subject, so that when you hear somebody ask the question but could you ever pay an uncovered dividend, look at the results, our statutory earnings per share are \$0.287. We've declared a dividend of \$0.44. We've done that because we've thoughtfully look at what we've earned in the period, and if you look at our adjusted earnings per share you see the major difference between the statutory and the adjusted are non-cash items. We will continue to be thoughtful and flexible.

**Peter Clarke:**

Thank you, Jon. On M&A Bruce, no change in emphasis here, you are right that we've historically managed to get what we want, and like I said in the presentation, through accessing underlying hedge funds rather than buying them or investing in them. And we can attract assets or if we want to grow the business attract people as part of that process without investing in an acquisition per say.

However, of course, there is a lot of opportunity in the world out there at the moment. And whilst there are no plans to do anything at all, and we would be very cautious about anything we did do, we will continue to look at whether there are opportunities to expand our investment management content by forming alliances with other people. That may or may not involve cash changing hands or investments. But that remains a key part of our forward thinking. But as I say we are not going to rush into doing anything, and we may not do anything at all. But that does form a component of our thinking.

**Kevin Hayes:**

Just on the -- at the external average, there is \$4.7b of external bank lending into the fund products. About \$1b of that is with RMF products the balance is with the guaranteed products. I think the theme there is, as Peter said, its going to be a dynamic situation where leverage is used as part of the investment management decision.

A couple of key points on the availability of leverage, which I think is the other important point. We have maintained huge credibility with the banks that we partner with. Not only do we have many touch points in those banks, whether it's a guaranteed provision, funding of products, corporate prime brokering. There are many touch points, so we are economically relevant to the banks that we deal with, obviously in an environment where there is less capital to go around.

I think the de-risking of the MGS portfolio was another example of saying what we were going to do and then doing it. No bank lost any money in their leverage provided to the funds. And it actually proved out that the mechanism under which they lend into the funds actually works. So when we sit with the bank and their credit committee that gives us a huge amount of credibility for further provision of funding.

With regard to MGS, as we've said, year end is about \$1.5b. Some of those products have started to re-gear slowly. If you were to take them to the max, which is not the intention, we apply leverage very slowly as part of the investment management process we could probably get up to around about \$3b. But that is not the intention in rather volatile markets, and we have funding to do that.

**Bruce Hamilton:**

Sorry, just to go back to my second question, in terms of the capacity that you are trying to access or the strategies that strike as appealing, presumably it's the more liquid ones, but any sort of colour there?

**Peter Clarke:**

Yes, sorry I missed that Bruce. Yes it is more liquid ones given that's where the demand is, which is global macro, managed futures, we allocate to our third party managed futures managers as well, non-trend following CTAs. Back to Philips earlier question about the equity markets, you know long-short, equity long-short actually is a place that we are looking for capacity, because obviously we can be long or short across that platform as well in which if you stick to big caps pretty, still pretty liquid.

So those would be the themes, but don't forget for the private investor those would be the predominant things. For the institution which is all now on the same platform, they are looking for a much broader spread of content. So they are right the way across to lock up product, we are out there selling lock up products at the moment for institutions. So they are right the way across that and that would be reflected in our underlying access requirements for managers.

**Bruce Hamilton:**

Thanks.

**Sarah Ing, Singer Capital Markets:**

Hello, Sarah Ing from Singer Capital Markets. Just touching a little bit more on the guaranteed products, Peter you said earlier that you are surprised more people aren't buying guarantees in this environment. Is this really a reflection of investor demand requiring the open-ended product, or is it more of a short term supply side issue in terms of the willingness of the financial institutions to provide the necessary guarantees? And if that is a short term issue do you see that improving?

**Peter Clarke:**

As I think I said Sarah, the products that we've done, we've done guaranteed products, we did an open-ended product on the Japan launch, but that could have been a guaranteed one. That's a global macro and managed futures fund, we could guarantee that without any issue at all. So that was driven by the intermediaries view, the

distributors view of what would sell at the time, and open-ended was what they wanted, so open-ended is what they got.

But if they said, you know what, could it be guaranteed, the answer is they would have got it in guaranteed format. So it isn't driven by the providing of the guarantee and the leverage associated that was driven entirely by the investor, which -- so as that moves we would expect to move with -- we want to do both, so if people want open-ended we give it to them, if they want guaranteed we can give them that as well.

Any more questions before we let you all go home? I think that's it then. Thank you very much.

[End]