



Event: Pre-close trading update for the financial year ending 31 March 2010

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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 pre-close statement call. Today I'm very pleased to present 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 an opportunity for questions. Peter, please begin.

Peter Clarke: Thank you very much. Good morning, everybody, and thank you for dialling into our pre close call. What I am planning to do this morning is to take a few minutes to take you through the FUM moves of the fourth quarter, pass to Kevin for a short commentary on some of the numbers, and then return to talk about outlook.

So, starting with Q4, our FUM movements, as you will have seen from the release, were dominated by the consequences of the minus 6% December we saw in AHL and this has had three distinct effects. Firstly, of course, funds under management started the quarter down and that has impacted Q4 earnings. Secondly, the sales outlook for the quarter was negatively impacted. This is clear from the relatively subdued private investor sales that we saw in the quarter of about \$600 million, less than we would have expected or hoped for prior to that December move. Thirdly, there is a mechanical and routine adjustment to investment exposure, which I think you're all familiar with, which follows AHL performance whether positive or negative with one month's lag. So this has reduced investment exposure following that negative performance of AHL in December and will increase investment exposure following positive performance from AHL. So you saw a positive in Q3, you've seen a negative in Q4 following that December move, and indeed we highlighted that negative Q4 effect for you in our January Q3 update. Clearly, if the recent positive performance of March holds we will see increased investment exposure as of 1 April.

Turning to Q4 more generally, sales were all open-ended reflecting demand for liquid onshore regulated products, themes that you will all be familiar with and themes which, of course, are front and centre to our sales strategy. Our developing UCITS range saw sales in Europe. UCITS also travels, as many of you know, particularly to Southeast Asia and Latin America, so sales from those regions as well.

The private investor Q4 redemptions remain low. In fact, the net flows for Q4 for the private investor are better than Q3 and Q4 of last year. Many of you will be familiar with this dynamic which we see following periods of negative AHL performance. So, sales slow down following negative AHL performance but redemptions also remain low and in many cases actually drop. So the result is to preserve assets in AHL through poorer periods and, indeed, as you will have all probably noted, assets under management in AHL at 31 March 2010 are actually higher than they were at 31 March 2009. So, whilst there is a lot of focus on AHL, funds there actually are up around 4% across the year.

The decline in FUM in the fourth quarter and, indeed, across the year is principally in the multi-manager business. This is the impact of some continuing redemptions and pretty muted sales of about \$400 million hitting the sales and FUM line as a positive in the quarter. However, as you will all be familiar with from our prior commentaries and releases, on the multi-manager side we have awarded but not yet funded mandates of around \$1.5 billion. This is an indication of the strength of future flows and unlike redemptions, which hit FUM immediately, these inflows follow execution and funding of the managed account structures which take several months to establish and, therefore, to fund. Those mandates are all in Europe the UK, Germany and Italy. Prospects for the managed account mandates extend further into the Middle East and Asia/Pacific but also some strong prospects here in Europe as well. Also pleasing to note that we won several awards for performance in specialist fund products during the calendar year of 2009.

Performance in Q4, well, we ended more strongly than we began. AHL had a negative January but is now positive year to date and is having a very good March month to date as you will have seen. This, if sustained, may be the catalyst we're waiting for on sales but it does need to be sustained.

That is where I was going to pause, come back to you on the outlook comments, but just wanted to pass over to Kevin for a few comments on the financials.

Kevin Hayes:

Thanks Peter. Good morning. As we said in our statement this morning, we are expecting pre-tax profits for the year of around \$530 million comprising \$450 million of management fees before tax and \$80 million of performance fees before tax. The biggest influence on our net management fees this year has been reduced average funds under management. However, there is one factor I want to highlight which has caused us to come in a bit below estimates and that is on sales commission. As we said in the statement this morning, our second half net management fees will contain around \$30 million of non-recurring sales commission items. These come from two main sources. Firstly, recent negative AHL performance means that we're further away from being able to re-gear one of the last remaining MGS products. We've accelerated the amortisation of sales commission on this product to reflect this. The second is that we've settled and tidied up an outstanding payment of trail commission to a large distributor.

Moving on to our financial position, our financial position remains strong with a regulatory capital surplus of \$1.5 billion and net cash of \$1.5 billion. Our recent €600 million Eurobond issue at a 6% coupon maturing in 2015, which was three times oversubscribed, demonstrates our significant financial flexibility. Our strong capital position was one of the key factors considered by the board when we decided to recommend a final dividend of 24.8 cents per share, giving an unchanged total dividend for the year of 44 cents per share.

With that, I'll hand back to Peter.

Peter Clarke:

Thanks, Kevin. Let me conclude with some comments on the outlook for flows and the business more generally. As I mentioned earlier, the catalyst for private investor sales will be AHL performance, a positive year to date,

strong March being an encouraging backdrop to that. Continued demand for liquid and diversifying strategies remains a solid backdrop to investor appetite, especially given the interest in regulated onshore products which, as I say, is central to our own strategic positioning and differentiation across markets.

Also, we have continued to invest in AHL and adjacent quantitative strategies. This should continue to bear fruit into the future. Quarterly redemptions, which we have some forward visibility on as you know, effective 1 April are much lower at around \$350 million. The continued positive AHL if it continues for March will generate an increased investment exposure through the mechanical process that we have spent some time talking about in the past and on this call. Continued demand for managed account-based solutions from institutional investors gives us an encouraging forward sales pipeline. The mandates that we've already secured I've referred to earlier.

Institutional investors continue to express confidence that hedge fund allocations will increase, although the first quarter industry flows are lower than the industry had originally expected. Our global distribution franchise, the relationships we have with institutions and, critically in this environment, with regulators means that we are well placed against those new investor requirements. As Kevin says, our financial resources and capital position is very strong. That means we can maintain a comprehensive and flexible response to investor requirements and invest and build out our business franchise as we see those opportunities.

So, I am going to stop there and hand back to our host and be ready to take your questions.

Operator: Thank you very much for that. Okay, we'll now begin 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'll enter a queue. After you're announced, just ask your question. If you find your question has been answered before it's your turn to speak, just press 02 to cancel. So, once again, if you have a question, please press 01 on your phone keypad now. Okay, the first question is from Andrew Mitchell of Macquarie. Andrew, please go ahead with your question now.

Andrew Mitchell: Thanks very much. Good morning. Two questions. One is I wonder if you could talk a bit more about the opportunities; you mentioned something in Japan or a product launch. Does that indicate that distributors are showing more appetite than they did in the last quarter? And, secondly, I wonder, Kevin, if you'd mind running through a bit more slowly the sales commission point, particularly the second part. I didn't quite follow that one.

Peter Clarke: On Japan, yes, we have very strong distribution relationships in Japan. We sell institutionally and the private investor, as you're aware, into Japan, although predominantly private investor assets from Japan. We do have strong relationships with two particular distributors which comprise currently products which are IP220, which is the multi-manager and AHL, and a fund of global macro and CTA strategies which includes AHL and others. Those two funds both sit a little bit away from their launch price given the negative move of AHL in December, the most recent Japan product having launched in the summer of last year. So I would expect the prospects of follow-on

launches in Japan to reflect the performance of AHL pretty dynamically. So if we continue to see positive progress with AHL then I'd expect to see a Japan launch coming up in the next quarter or two. If we don't, then it won't be an AHL product. We're in discussions on other sorts of products with both our major distributors to look for specific content. The sort of thing that they're looking for is particularly macro themes around emerging market strategies and commodities. So I think there will be some Japanese products to distribute but they're probably a quarter or two away, they're not imminent.

Kevin can answer the commissions one.

Kevin Hayes: In our sales commission line we have two forms of commission. One is the placement fees and the second is the trail commission. With placement fees which we pay upfront we capitalise those and then amortise them over generally four or five years at the beginning of the product's life. Part of the adjustment that we're making is an acceleration of that amortisation of some products that related back to the Man Global Strategies product range. We had an expectation last year that some of these products would re gear because they had trading capital. However, with the AHL losses those products have less trading capital so we've accelerated the amortisation of those placement fees in the P&L. That's about half of that \$30 million charge.

The other component really relates to trail commissions where we've tidied up an outstanding payment to a very large distributor related to previous trail commissions - that's about \$15 million. So, those two items are in the second half and if you were to look at the sales commission line that will appear as an out of period item.

Operator: Andrew, do you have any further questions?

Andrew Mitchell: Could I follow up, Kevin, on that second answer, the point on the tidying up of trail commission? That's just a sort of misallocation or something in prior periods?

Kevin Hayes: Yes.

Andrew Mitchell: Okay, thanks very much.

Operator: Okay, we now go to Philip Middleton of Merrill Lynch. Philip, please go ahead.

Philip Middleton: Thanks. Again, one for each of you. Firstly, for Peter, could you talk a little bit more about what distributors are saying to you outside Japan and, in particular, what products do you feel people are looking for in the next year or two more globally and how do you feel that fits with your product range? Do you think there are any implications that has for your product range?

Secondly, I wonder if Kevin could just say a little bit as well as the what I'd consider to be one offs on the trail commissions, you've got another one off looking item which you're calling something like "adjusting items", if you could talk through a bit of that and also talk through why neither of those two are being taken below the line, whereas historically you've taken the

trail comm below the line and property costs tend to crop up below the line as well.

Peter Clarke:

Okay, Philip, thank you. I'll deal with the first and, as you've indicated, we'll let Kevin do the second.

Our distributors are pretty much uniformly around the world asking for liquid understandable strategies with genuine prospects for diversification. That's a direct function of the experience of 2008 and 2009. They are frequently also asking for onshore structures that they would find comfortable, hence the attraction of UCITS particularly.

So, the private investor, when you analyse back to what you can invest in which is really diversifying, that's liquid, has capacity and they can understand, means that you end up pretty much in the range I was indicating for Japan. So, momentum, trend following, highly liquid strategies remain in favour, global macro given its ability to be highly flexible in markets with uncertain direction and, again, the liquid end of that remains very attractive. Commodity strategies, particularly non directional commodity strategies, remain much sought after and thematic strategies, long term thematic strategies, particularly around emerging market opportunities, remain attractive.

Now, our ability to deliver content into those formats is sort of two-fold. The first is that we do have highly liquid content, particularly in AHL, which we can direct into that and we can pull together funds like the fund I was referring to from last summer in Japan, which is a mix of CTA and global macro, we can pull together an attractive diversified by manager set of opportunities for investors which has proved attractive.

In terms of the regulated onshore component, then, of course, that's something that we have the resources and capability to deliver into, whether it's here in Europe or in Taiwan or in Hong Kong or even in Australia. So there are opportunities to do all of that. The gap that you will see through that is equity-related strategies in terms of managers that we have internally in the organisation and, as you know, I've said before that that's a gap that we would like the time to fill out in terms of having equity long short capabilities within the firm. But as I say, that's something that we can access through others but over time would like to have some internal capabilities to deliver that.

Kevin, on the other question?

Kevin Hayes:

I think at the beginning of the year we indicated that we were taking certain steps to reduce our cost base overall to reflect the lower funds under management to preserve our margin. In the first half we took a series of charges related to redundancies and restructuring. In the second half we've continued to have a look at our property portfolio, particularly in London, and we've been able to sublease some of those properties and reorganise some of those properties. That relates to the charge that we've taken the adjusting item in the second half. So, \$23 million relates to property portfolio.

Then, as we've mentioned in the first half, we've reorganised the multi manager business and there was about \$7 million of restructuring and redundancy charges relating to that. So, that's the item.

To your comment about ordinarily you've taken these below the line, individually these are not significant and, therefore, what we've done is we've just disclosed them and we've given you an EPS based on the \$150 million profit before tax.

Philip Middleton: Okay, thanks very much.

Operator: Okay. If there are any further questions at this stage, could you please press 01 on your phone keypad now? Okay, Peter, at this stage there are no further questions. Can I please pass it back to you?

Peter Clarke: Okay. Thank you very much. Thanks, everybody, for listening. Just to conclude the call this morning, Q4 has obviously been a difficult quarter. However, the attraction of our managed account-based solutions, the positive AHL performance we're witnessing across the quarter and, more particularly, through March to date investor appetite for onshore liquid strategies continues to develop, as I mentioned in the context of some previous questions. There is a wide opportunity set in the new environment. We have lots of capital and cash to take advantage of opportunities as they arise and so I think this all points to prospects for growth in the year ahead but, as we have indicated, a lot of that will depend on the near term performance of AHL.

So, that is the end of my wrap-up commentary. Thank you all for listening. Thank you, Hugh.

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