



Event: Year End Results 2011

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

## **Jon Aisbitt - Chairman**

Good morning everyone and welcome to our full year results presentation. Just a few words from me by way of introduction before I hand over to Kevin and then Peter.

This, as I'm sure you all know, has been a transformational year for the Man Group. The Group's activities and the Board's agenda have been dominated by the acquisition and successful integration of GLG which has created a diversified world leading alternative asset manager.

We have continued to focus on maximising the potential of AHL through investment in people, technology and operational infrastructure and we've also made substantial progress in Man Multi-Manager with two large scale institutional mandate wins.

Our distribution and product structuring capabilities unrivalled in their global reach continue to expand.

I'm delighted to announce that we now have \$2b under management from Nomura Global Trend making this our largest ever launch.

Man remains soundly profitable and our results this year demonstrate an improved sales trend against a backdrop of volatile markets.

With business performance in line with our expectations, the Board intends to recommend the final dividend of 12.5 cents per share, bringing our total dividend for the year to 22 cents per share.

Looking forward, our growth strategy is built on four key elements – delivering strong long-term investment performance, offering our fund investors a diverse range of investment strategies and formats well matched to their needs, distributing to a growing global investor base and sustaining our corporate reputation with continued focus on strong governance, risk management, financial discipline and innovation.

As a firm, we are very focused on executing well against each of these four elements.

I would now like to ask Kevin to go forward with the presentation.

## **Kevin Hayes – Finance Director**

Thank you Jon. Good morning. We ended the year with funds under management of \$69.1b, in line with our pre-close trading update on the 29th March. There was positive investment movement in the last few days of the financial year of around about \$400m and this was largely offset with negative foreign exchange movements.

Statutory profit before tax is \$324m. We estimated \$280m at the pre-close on the 29th March. The increase is due to half in revenue numbers and an adjustment that I'll go through in a minute. The increase is around about \$10m in net management fees driven off of the strong performance right at the end of March and gains of around \$10m from the Seed portfolio as that portfolio was marked at net asset values on 31st March.

There is also a \$15m adjustment for performance fee accruals on the acquisition balance sheet of GLG and I'll explain that later when I go through the net performance fees.

Adjusted profit before tax of \$599m comprising \$430m of net management fees and \$169m of net performance fees. Net management fees before net interest expense on our debt were broadly in line with 2010, reflecting stable margins and strong cost discipline.

Net performance fee income was higher than 2010 due to strong AHL performance in calendar 2010 and the inclusion of GLG performance fees post the acquisition date.

The regulatory capital surplus is currently estimated at \$900m which increased at the end of the year with the inclusion of the gain and the release of regulatory capital on the sale of the BlueCrest stake in March.

Turning to funds under management, funds under management increased 75% from \$39.4b last year with \$25.4b added through the acquisition of GLG in October.

The FUM related to Man products during the year increased by about 4%.

Sales aggregated \$11.7b for the year and as you can see from the box in the middle of the chart, the significantly improving sales trend over the year with net inflows in the fourth quarter for the first time since September 2008.

AHL sales were \$2.8b and GLG sales for the period post acquisition were \$3.1b.

Redemptions were \$13.7b, but again, we have seen redemption rates trend back to historical levels during the year in the majority of our product groupings.

Strong investment performance in calendar 2010, although negative in the fourth quarter, resulted in the Investment Managers making \$2.8b of investment performance for fund investors over the year.

FUM in guarantee products, which is our highest margin product, increased by about 8% year-on-year. Guarantee products had strong positive AHL performance and as a result, had \$2b of investment re-gearing which offset the negative net outflow during the year. In the fourth quarter, the launch of the guarantee product Man Synergy raised \$350m.

Post year end, the sales momentum has continued with \$400m raised from the Man IP220 GLG product and, as Jon mentioned, \$2b raised from the open-ended Japanese launch Nomura Global Trend.

We have a pipeline of over \$2b of institutional managed account mandates in the Man Multi-Manager which we will fund over time and these are not included in the FUM numbers here.

With regard to gross management fee margins, you can see here the groupings of margin by product. Gross management fee margins have remained stable compared to 2010. The open-ended alternatives category has a combined margin of approximately 259 basis points. However, mix will affect this margin level and so we have broken out the AHL and the GLG open-ended margins for you.

There is potential for institutional and fund-of-fund margins to decrease from these levels due to a mix shift with managed account based mandates being in and around the 50 basis point range.

With regard to revenues, performance fee income of \$228m includes \$25m from gains on Seed investments. Performance fees split approximately 50/50 AHL and GLG. The majority of the AHL performance fees were earned in quarter three when the majority of AHL's FUM was last at peak in November 2010.

The increase in management fees you can see here primarily relate to the inclusion of GLG post the acquisition.

For AHL, the weighted average distance from peak is currently 12%.

Approximately 65% of GLG's performance eligible funds under management are at or above high water mark at March 31, 2011. Remember, GLG books performance fees in June and December.

With regard to costs and synergies, distribution costs are broadly in line with 2010. You'll remember in 2010 we had a \$30m one-time adjustment in that comparative.

Asset servicing, which is a new line item in our income statement, includes custodial, valuation, fund accounting and registrar functions performed by third parties under contract to Man on behalf of the funds. During the year we commenced an initiative to transition some of the services previously performed internally to third parties. This gives us additional cost transparency, cost flexibility as funds under management grow, as well as scalability and efficiency offered by the third party providers. It is now required under governance rules, particularly with regard to independent valuations.

The asset servicing expenses for the year were \$16m and is expected to be around about \$30m for the nine month period ended December 31, 2011.

Around about half of the costs in the \$16m relates to GLG costs. Now previously, GLG already had a lot of these services outsourced. For the balance of the costs we will reduce internal costs over time as this transition is complete with the objective of being cost neutral by 31 December on a run rate basis for the Man component of these costs.

Compensation costs increased by \$171m from 2010 and includes the GLG compensation cost base post acquisition.

GLG's compensation to revenue ratio was 65% and this includes share based payments which are amortising and that was around about \$33m for the period.

Man's compensation to revenue ratio was about 25%. The difference in the ratios reflects market compensation differences between discretionary and systematic investment management. It is expected that over time GLG's comp and benefit ratio will trend back towards the historical range of between 55% and 65%.

Other costs increased by \$33m primarily with the inclusion of GLG costs and the items we noted last year regarding rent and depreciation.

GLG other costs for the 5.5 month period post acquisition added around about \$40m to the cost base excluding the cost synergies that we have achieved of around about \$8m in other costs.

In the next reporting period, which is the nine month period to December 31, the move to the new London headquarters will result in an increase in occupancy charges of approximately \$15m and an increase in depreciation charges of \$10m.

We've already delivered on \$16m of the cost synergies - \$8m in other costs and \$8m in fixed compensation costs – and we're on track to deliver the \$50m of synergies by the end of September 2011.

We previously announced that there was a cost of around about \$25m associated with achieving these synergies and this is included in adjusting items now, primarily in compensation.

Pre-tax profit, we announced the sale of BlueCrest in March and therefore, going forward, there will be no significant income from associates. As I mentioned earlier, pre-tax profit included \$430m of net management fee income and \$169m of net performance fee income.

As part of the acquisition accounting for GLG, an estimate for performance fee compensation was accrued in the opening balance sheet against estimated performance fees not yet crystallised or recognised at the date of completion.

Initially, at the date of the trading statement, this was estimated at \$30m and subsequently increased to \$45m on completion of the acquisition accounting. This accrual does not affect amounts paid to portfolio managers when performance fees were crystallised and compensation paid in the fourth quarter. However, performance fee compensation paid to the portfolio managers was charged against this opening balance sheet accrual thereby reducing the compensation charged to net performance fee income.

Obviously I've just given guidance on compensation ratios that you should use for the split between the predominantly AHL and the GLG performance fees going forward.

Going forward, also just a note in net management fees, we are not going to include net interest expense in net management fees. The capital and funding decisions are made independently of the investment management process and therefore, net interest expense is more related to a franchise cost and will be reported separately from net management fees.

This is a summary of the earnings. We've explained the adjusting items at the pre-close in March and the figures are in line with those previously announced. In the provisional purchase price allocation for the GLG acquisition we have allocated around about \$670m to investment management contracts and other intangibles and this balance will amortise over 10 to 12 years and this is shown as amortisation of GLG acquisition intangibles which was \$28m for the period from acquisition to year end. This is expected to be \$45m for the next nine month period and will continue to be reported as an adjusting item and a non-cash item.

The effective tax rate on adjusted profit is around about 14%. Historically, we've been in and around 17% to 18% last year. The lower rate is principally the result of prior year adjustments from tax settlements and an adjustment for the reduced UK corporate tax rate. It is expected the tax rate will be closer to 17% to 18% for future periods.

In the release today there is also disclosure relating the GLG post tax results since acquisition. I just want to walk you through this disclosure. The disclosure refers to GLG making net income after tax of around about \$11m for the 5.5 month period. This is a disclosure required by IFRS and is quite prescriptive how that number is calculated. The main difference from the way we would evaluate that number is it excludes any of the cost synergies achieved to date which are at \$16m and obviously, any of the revenue synergies.

I think the other thing to note also on the full year assessment of that number, again, it doesn't take account of cost synergies and revenue synergies and it doesn't take account of the fact that during last year GLG also came back up to performance fee highs during the year. As I mentioned earlier, it is now 65% of the performance fee eligible assets are at or through high water marks.

With regard to the balance sheet, the main changes in the balance sheet are due to the GLG acquisition with franchise value (also known as goodwill) and other intangibles increasing and cash decreasing. The increase in loans to funds is the result, compared to prior year, of month end rebalancing between portfolios as a result of negative performance in March. Our regulatory capital position remains stable and as you can see from the balance sheet, we have, post the acquisition, net tangible assets of \$1.7b. We remain well capitalised and have a regulatory capital surplus of \$900m and significant unused liquidity resources.

The "you are here" slide. We obviously announced that we are going to a December year end. That means that our reporting period will be a nine month reporting period to December 31st. We will have an interim reporting period for the six month ending September 30th and we recognise

that it is difficult to model stub periods, nine month periods, and particularly difficult when in the previous period we have completed an acquisition. So the comparable numbers are not necessarily very helpful.

As in the past, what I've just walked through is a pretty detailed analysis of funds under management, gross management fee margins, detail around the cost base and what changes in the cost base plus the compensation to revenue numbers. So you can actually pretty robustly get to fairly good forecast.

But to assist you in this, and this is the plug for the IR Department, we are going to use a system called VUMA to pull together the consensus numbers and we're going to ask you to put your consensus numbers into that system and the IR team is available to talk to you further about that. I think that will help the consensus process during the stub period.

So in summary, we are well placed for growth with prospects reinforced following the integration of GLG. We have a scalable and flexible cost base. We have surplus capital, strong balance sheet and liquidity.

Thank you very much. I'll pass over to Peter.

### **Peter Clarke – Chief Executive**

Right, good morning everybody. Thank you to Kevin and to Jon for their introductions. I thought what I would do in my section of the presentation is try and be helpful in a number of respects. Firstly, to reflect on the significant changes that we've executed during the year across the Group. Secondly, to take a look at industry trends and how that frames the backdrop for our own business and thirdly, obviously, to provide some colour on what we're seeing in markets, where we're seeing opportunities and how that will impact the future of the firm.

So you've heard already that we're pleased with the acquisition process and the integration of GLG. That has resulted in the industry's most comprehensive provider of liquid alternative strategies which was our objective.

In terms of execution, it has gone very well. You've seen investment performance and flows undisturbed through that process and as Kevin noted, cost synergies are on track. But obviously, the principal reason behind this transaction was on the revenue side.

So launching combined product, creating a new venture (Man Systematic Strategies) for non-trend following systematic strategies, already over \$1b of FUM in that.

And thirdly, using Man's established franchise, and we'll talk a little bit about this in terms of distribution, to raise assets for GLG products where the early indications are very encouraging indeed.

So the range of strategies has also helped obviously to invigorate the sales force. There is more to sell. There's interesting product and product combinations for our investors to talk about. That's created a lot of investor interest and we're already beginning to see that turn into assets.

And lastly of course we have an expanded investment management team to add to the senior management team at Man. I'm very pleased with the way all of that is working at all levels, not just in terms of management but in terms of performance of the underlying products.

So I said we're positioned well to capitalise on investor demand. What's happening? Well there is a broadly supportive market backdrop to our positioning. The last three years have demonstrated the value of diversification and we'll talk about that in a moment as well, especially where that

diversification comes with liquidity and our expanded investment management capability is designed obviously to meet that head on in terms of our own performance and product set.

The empirical industry evidence is of increasing demand, but, and this is a big but, the format and client servicing that sits around that is nowadays a prerequisite for investors and indeed, one of the key differentiators for the Man Group.

To meet investor appetite requires not only products and formats and interesting performance, it also requires proximity. Not just to your investors, but also to markets and this is where Man's global footprint and access to investors, in my experience often overlooked, is something that I'm going to spend a little bit of time on later on in the presentation as well.

As I say, the format of investment is critical – offshore or onshore, liquid, structured, transparent, diversifying, focused, whatever it is, that requires market expertise as well as investment management and I'm confident that Man actually leads the industry in this regard and that is also becoming a key differentiator.

And lastly, Kevin took you through the strength of our balance sheet, our financial position. We have rebuilt regulatory capital and cash following the acquisition of GLG which puts us in an extraordinarily strong position in our industry.

So some long-term trends. I'm not going to go through all the components of this. Some quick reminders of what are the structural drivers in terms of flows here. Why are people allocating? Well the search for high quality risk adjusted returns which are genuinely diversifying is what institutions and private investors are like looking for. That is well established in terms of all of the empirical analysis of where people are going to be putting their money. Whether that's asset liability matching, dealing with pensions, dealing with the private investor side (the section of the slide on the left here) and aging population, people saving for a more expensive and longer retirement, particularly in Asia Pacific. Of course, a key focus for us and the consequent flows as people diversify returns has been a key driver for us there. The search for yield, particularly in retirement again and a low interest environment such as Japan driving the success of that, a Japan product there. So it's no accident that Asia Pacific is and remains a key focus for us.

Importantly, there is now a realistic set of expectations in the context of returns as well. The recent survey here shows that 75% of people expect a long-term investment return of 7% or less which, as you will see from this slide, is exactly what the hedge fund composite as a blunt instrument to measure returns over the last 10 years is achieved. You will see on that top right-hand slide the hedge fund composite has achieved exactly 7% with lower volatility (the bottom right-hand section) than anything other than world bonds.

So the investment case as it were in terms of peoples' expectations, peoples' needs is met through a sensible conservative structure around an alternative investment proposition.

On the left-hand side we've just given you effectively the 10 year graph for AHL at the top there for the hedge fund composite for world bonds in red and then for world stocks in green.

So the experience of the investor does predispose them to diversification, but they clearly need to choose their partner, and indeed their strategy, carefully.

So here's a collection of our composite performance for calendar 2010. We have a wide range of products and formats which is designed to give a spread across the risk adjusted return spectrum here. We've put stocks and bonds on there as an illustration.

We did have a particularly good 2010. You've all heard me say before that it's not often that we'll get all components of our business performing positively because by design we have a set of

return streams which are designed to perform at different times. But 2010 was an excellent demonstration of how that spread of products sits across a risk appetite for investor and no surprise, as many of you will know, that we won a large number of prestige awards around performance to reflect the success that we've had in 2010.

Going into 2011, that was calendar year, this is the calendar year 2011 to the end of April. Performance has been more challenging. Most asset classes have struggled to make significant headway in 2011 so far and the hedge fund industry, and indeed our own product set, also has a mixed year to date.

These are the stats to the end of April. Say, for example, you got an AHL Diversified here; you need to update that for performance in May which will pull that down to about a minus 6%ish year to date.

AHL's distance from peak, as you can see here and Kevin mentioned it, is around 12% on a weighted average basis reflecting that recent downturn in May with plus 6% in April minus a similar amount in May. As Kevin mentioned, to the great credit of the spread of GLG investment strategies, 65% of those (two-thirds of them) were at or through high water mark at the end of March notwithstanding a more difficult investment environment for 2011. So although AHL has moved away from performance fee highs given the events of May so far, GLG, in terms of performance fee eligible product, you can see remains close to or through high water mark.

I thought it would be useful to spend a moment now looking at the components of our assets and some of the key things that are going on in each of those segments. This is the split of the \$69.1b at the end of March. Now \$71b as we stand here as we announced this morning. And go through for you some of the components of this in turn.

So although we're obviously busy expanding the business and developing new products and formats, we continue to invest heavily in AHL. 88 full time researchers in sector teams is the largest research team in our industry. Also, of course, accessing the Oxford Man Institute whereas you know we have now coming on for a four year association with Oxford giving us access to the brightest minds and the current thinking in terms of markets and strategies.

We continue to value proximity to markets. As I mentioned, we have a Hong Kong trading operation for AHL through which we trade Asian markets whereas I say we find proximity to market developments particularly useful.

In terms of the Multi-Manager business, our focus as you know is on transparency, on managed account structures there. The risk reporting insights that you get from that, the data you get from that, we deploy back in terms of construction portfolios and returns and we're working to generate a performance differential effectively off that under Luke who now heads that business.

Some recent mandate wins that you are fully familiar with there leveraging off that proposition around the managed account.

On the long only side, top quartile performance from our biggest funds here the Japan Core Alpha funds. Now also an EU fund, an onshore fund available there. Two funds with over \$1b. No material disturbance to that proposition at all as a result of the events of March in Japan. I think some people worried about that. There has been no problem associated with that. Outperformance against the benchmarks in the year-to-date.

On the equity side, on alternatives, some success here. We continue to see strong demand, particularly for some of the products where there is scarcer capacity like Alpha Select which, as you probably know, opened and closed quite quickly during this period as we took on assets but

have stayed very focused and disciplined in terms of constraining the overall size of products where we feel capacity is limited.

We have about \$10b in UCITS in aggregate. We have some new equity UCITS products, North American equity being one of them.

Credits and convertibles, again, some award winning performance here. We happen to have shown one of the awards, but there are others.

Integration of Ore Hill, you will recall that we bought the 50% of Ore Hill we didn't already own, our US credit manager, and brought that onto the GLG platform to provide the full geography of credit strategies across GLG.

And emerging markets, we continue to build out there both in terms of assets and investment management. Focus Asia Pacific. We have a Hong Kong investment management license now and so building out investment management teams into, for example, Hong Kong and other parts of the world is the way in which, from the investment management side, we're using the access and infrastructure that Man has globally to provide insight and performance to our investors.

And of course, on the macro side, there is also the UCITS fund available on the Atlas Macro programme as well.

So what's happening in terms of flows? Well let's just start with the industry. The industry is shown here. The green bars show you net inflows over the halves, over the years rather, and the first quarter you can see the industry has moved to inflows as the green boxes go positive.

Asset growth in the industry, which is the orange line overall, driven primarily by performance.

GLG's inflows have mirrored this as well given the fact that they are largely raising assets from institutional investors globally and this trend strongly reflects institutional flows.

On the Man side, we've lagged the industry flows here, although I'll come to this in a moment. Clearly, we're seeing very strong demand at the moment. The reason for the lag there is that the Man piece of the business is more focused on private investors. Private investors have been slower to reallocate to alternatives after the financial crisis, but as we've seen, and we'll talk about again in a moment, it's clear that they are doing that and it's important in this environment that you can construct formats which suit all of those needs.

So we thought it would be helpful to just give you an idea of what clients are looking for and the point here really is that they all want different things. They want different things and they have different demands on us as a provider. So we've just given some illustrative but based on fact sort of background here.

US pension fund, they want consultant recommendation for allocation. They want consultant support for manager's selection, hence our focus on the consultant channels. They also want transparency in terms of what they're investing in. But importantly, they also want brand awareness and transparency at the GP level not just the LP.

So what's happening is that all the big allocators are diligencing the firm, the investment management business, in today's world as much as they're diligencing the track record of the underlying LP and back to our own transparency, listed status and capital and cash surplus is a key component to that success.

In Europe, while the retail market, for example, is obviously a UCITS III driven market here, daily liquidity which we can provide around a full range of alternative strategies. We have daily liquidity now on the AHL UCITS as some of you now know.

Choice of returns formats is there. We've got \$10b in UCITS. What's important in this market again is brand awareness where our brand in alternatives is, I think, second to none. Plus of course from the intermediaries perspective, and this is an intermediated market, they want a high quality, high capacity counterpart.

So key to our selection by distributors of this sort of content has been our ability to effectively they do one set of due diligence on the firm and they get access to a wide range of strategies. It gives them scalability against their own distribution and client base.

In the Middle East, an example here of a sovereign wealth investor, they want a long-term strategic partnership. They tend to be quite settled in their allocations, but they do require very high level commitments both in terms of access from the firm and from the fund managers. They demand multiple touch points and a reason why I spend quite a lot of time there.

Japan, obviously a very relevant example given the success of our recent launch there. Having the right product with the right partners and putting in a hell of a lot of work can actually produce a stupendous result and that \$2b is a function of all of those components. Having the right product and having the right partner being two of the most critical components of that. Indeed, I'm in Japan again next week.

So the six weeks of the AHL open-ended product in Japan \$2b, phenomenal success. We have a follow on product in Japan with a different distributor which is a GLG currency, emerging market currency fund. That's going very well. It's not a \$2b launch because as Jon mentioned earlier, \$2b is the most we've ever raised from investors in terms of client assets. It is an unlevered exposure. It's not a \$2b, but it's going extremely well and that's an example of how revenue synergies are really beginning to reveal themselves here in terms of access to Japan for the investment capabilities of GLG.

This is a very busy slide. I'm not going to spend a lot of time on this. There is a lot of data here which is really for you to take away and unpick as you find helpful. But one of the overlooked aspects frequently of Man is the distribution franchise, the intermediated franchise that we have around the world. We have very longstanding presence and huge contacts across a vast range of intermediaries whose confidence in distributing our product has been built up over many years and of course, where our skill is able to deploy an investment return stream into a format they need, whether it's in Singapore, it's in Australia, it's in Dubai, it's in South America, it's in North America, it's in Europe. Whether it is you can be pretty sure that if it can be distributed, we can find a way of structuring that around what we have.

The blobs here, the Smarties, the M&Ms I guess reflect the offices around the world. The orange ones are the newest. So your first thought is that we're not new into Asia Pacific. We've been there a long time. The newish blob there is Singapore. The others are all longstanding and our focus more recently has been into North America, as you all know.

On top of this sits a global banking relationship which stretches across the requirements of all of the major banks. Pretty much everyone who is here from a major bank we will have a relationship with.

So let's look at where we're seeing specific tangible developments in terms of access in each market and we'll go through it by manager.

So for AHL we're now on the Morgan Stanley futures platform adding to the Merrill Lynch futures access platform.

We have interests from all around Europe and the Middle East in terms of both sovereign wealth and private investors.

We're launching a Renminbi class for AHL where we see a lot of demand for the Renminbi backed by the performance of AHL and of course the Nomura Global Trend launch, the \$2b one we've talked about and the following one which is not named on this slide which I referred to earlier which is the emerging market currency launch. We've also seen flows from that region into macro and emerging markets.

So what we're doing is using the knowledge and proximity of those offices you saw dotted around not just to sell and structure product, but also increasingly to locate investment management capabilities. In this case, the Asian case in Hong Kong.

On the GLG side we continue to see institutional flows. One of the differentiators between GLG and Man was the direct access that they've been offering successfully to institutional investors around the world and particularly in Europe.

We are seeing success there in revenue synergy terms in terms of the Japan launch which I've mentioned which is not just around currencies but other emerging market strategies.

In onshore Europe world, AHL UCITS, we're now at around \$800m of AHL UCITS. \$10b in aggregate across the firm of UCITS capabilities. Japan Core Alpha has two flagship funds with over \$1b in them as I mentioned earlier. So a very comprehensive set of opportunities there.

The ETF that's on the screen here from MMS is the Man Systematic strategies. This is the recent ETF structure into a long only equity research driven, broker research led, strategy now managing get on for \$500m; a very successful start to a new venture there.

On the Multi-Manager side it's MAC based, as we've talked about, appealing to sophisticated investors who want to rationalise holdings, who want aggregated risk reporting and essentially want online access to their underlying portfolios that they've got in hedge funds.

All of that is giving us the ability to rollout product and access the synergies that you've heard about already and you can now see why we can get them.

Lastly, by way of wrap up I guess, we can't go through a presentation without talking about the regulatory environment. The regulators around the world are doing a lot of different things in different ways. The regulatory, the pace of regulatory change continues to be fast. What we're now seeing is implementation of that at different speeds.

Not going to spend a lot of time on it, but just generically, the United States is broadly adopting an approach of not so much supervising managers or products, but is supervising markets. So markets should have clearing house rather than bilateral OTC. So bring it on market, impose restrictions on open interest, for example, none of which appears to have difficulties for us as a firm. Indeed, the OTC migration to exchange traded clearing house contractors will be a significant advantage. So the US looking very much from a don't let markets get disturbed by participants frame of mind.

Europe focused very much on the product. If it isn't UCITS III you can't sell it to the private investor. If it is UCITS III you can. So very much a product, solid product sort of environment which we access comprehensively across long only and alternatives.

In Asia Pacific they are much more focused on how you're selling product. Do you know your product? Do you know your customer? Are all the disclosures appropriate, in which case, the investor broadly can access those products?

So three different approaches, three different ways of accessing your client and dealing with that. In each case, as you will recall from our distribution map earlier, we are equipped to do that by having on the ground people in each of these key territories supported by distributors in each of them.

The cost of compliance, this is just \$5b is one of the industry observer's view of how much it is costing to comply with regulation. I have no idea whether that's right or wrong. The only point I would make is that it is costly.

One of the great differentiators that Man has actually is that we have the cost, the resources, the infrastructure, the relationships with distributors and regulators all over the world which is why we can get regulated product, for example, into Singapore and I don't believe in our industry, I don't believe anyone else can.

So lastly, a wrapping up. So what are we doing? Well we've been spending a lot of time focusing on driving the business benefits out of the GLG transaction. Clearly, markets at the moment do remain quite volatile. It is causing performance difficulties across assets, although, as we saw earlier, two-thirds of the GLG performance fee eligible assets are at performance fee highs.

And lastly what we're seeing is investor demand. Not just in terms of the industry shift, but in terms of our own products, strategies and formats and sales momentum around there is building strongly. The \$71b that we printed this morning in terms of our current assets up \$2b from the 31st March is net sales. Everything else broadly washes out. That \$2b growth is a result of net sales. So you can get a feel for the momentum in the business over the last eight weeks since year end.

So I'm going to stop there and we'll go to some questions. Thank you very much.

### **Question and Answer Session**

#### **Raul Sinha – Nomura International**

If I can have two questions please? Firstly, on the Japan launch, there has been a view that AHL might need to be above high water mark before you can sustainably generate net sales over a long period of time. Would you encourage us to think that there might be future net inflows of AHL as performance has deteriorated, or do you think this is kind of an exceptional performance that might be one-off in nature?

Secondly, could you talk about what you plan to do with the balance sheet excess capital you've got and what are your plans for deploying the cash?

#### **Peter Clarke**

Okay, thank you for that question. In terms of AHL high water mark I think the important thing is that a high water mark for a product that you're not invested in is of no interest to you at all because it is someone else's performance right?

The question is at the moment I invest, looking forward, do I think I'm going to get a return out of this investment manager. In the context of AHL therefore, to the extent that we have distributors that have sold a lot of AHL and when their investors still have not achieved high water mark, sometimes that has an impact on them.

In the case of Nomura, they have clients that have AHL product from two years ago. There is no impediment at all if you have an interesting product with interesting attributes to raise money despite the fact that we're still some way away from NAV highs. Now clearly, it would be helpful to regain them, but it's not an impediment to sales as we've seen.

So I don't think you should view the Nomura flows as exceptional in the fact that they're happening. Clearly, they're exceptional in terms of their size, but the fact that they're happening I don't think you should view as exceptional in these circumstances at all.

As far as the balance sheet is concerned, we do have significant capital and credit. We've built that up since the GLG transaction. Our primary view here is to invest in our business. None of what we plan to do is particularly capital intensive. We've just made a significant acquisition. We intend to grow organically in terms of our styles and strategies around that and we have bags of opportunity around the world, as you've seen, to do that.

So no plans to spend that capital in any transactional sense. We would like to continue to invest in our business and we will do that where we see fit. Having lots of capital and credit is a differentiator in these markets and adds credibility to our franchise and to our partners.

Ultimately, we have, as an organisation, as you all know, been very disciplined about returning excess capital. If we genuinely think we have significant surplus capital, then we will look at ways of returning that to our investors. But as I say, in the current environment, we think that it's an opportunity rich environment and one where holding excess capital gives us an edge.

#### **Carolyn Dorrett – Deutsche Bank**

Could I ask a couple of questions please? First of all, in terms of a minor point here, but the GLG you said the higher comp to revenue ratio at 65% should trend down over time to 55% to 65% but yet you said it will still be at 65% for next year. Can you give us an idea of how that sort of \$33m deferred comp amortisation will trend over the next three years so we can try and back out what that ratio will be?

#### **Kevin Hayes**

So I think the way to look at that is if you sort of start with a blended basis of 55%, the difference between 55% and 65% at the moment is accounted for by about \$33m of deferrals which, if you think about that in the terms of five and a half months, you'll get most of the way there for calculating a nine month period. So basically it comes out over the next two years.

#### **Carolyn Dorrett**

Thank you. Secondly, you said, I believe, that net interest expense will be excluded from management fees going forward. If that had been the case in full year '11 and full year '10, what difference would it have made on the management fee numbers?

#### **Kevin Hayes**

They would have increased by the fact that we had net interest expense for the year.

#### **Carolyn Dorrett**

Sorry, can you quantify it?

#### **Kevin Hayes**

I think it's actually broken out on the income statement. It's about \$64m I think is that number. Yes, it's pretty close to it. It's just to differentiate the fact that we have an investment management business and we have a capital structure that's independent from the investment management business. We choose, as Peter said, to have capital and excess liquidity in the business as part of our franchise costs.

If we're going to be completely transparent, we'll have it as a line item on the balance sheet and we'll have net management fees reported. The net finance income on this year's income statement, just walk you through there because there is an adjustment in there as well. It's \$46m, but remember that includes a gain. When we disposed of BlueCrest, they paid down an existing loan note and that gain goes through the net interest line which was about \$11m. So \$57m for the year.

**Carolyn Dorrett**

I guess going forwards, our management fee margins should increase?

**Kevin Hayes**

Yes. If you're looking at net management fee margins, excluding interest, yes.

**Carolyn Dorrett**

Okay and why are we doing it now?

**Kevin Hayes**

As I said, this is just a change in the fact that we have said that interest expenses is a franchise cost as opposed to necessarily in the net management fee line. It's our disclosure regime. If you choose to put it in your net management fees, that's fine.

I think the fact that we have significant excess capital and we've retained the excess capital. We have suffered from the fact that we've had lower margins on that excess capital going through our income statement as the fact that the reality is we're investing it largely in bank deposits which are significantly lower yielding.

As I said, the major difference between our net management fees this year and last year was the full year effect of the EUR600m debt issuance we had in January the previous year.

**Jon Aisbitt**

I would also say that from the Board's point of view, the growth in the net management fee is a key performance indicator for senior management and we want them to be held accountable for the actual growth rather than the unintended consequences of our balance sheet.

**Carolyn Dorrett**

Thank you. Finally, can I just ask if there are any capacity constraints in any of the GLG funds? I think I saw on the wire some commentary that maybe the market neutral fund could close.

**Peter Clarke**

Yes, I mean as I said Carolyn on the way through, there are some funds where we think there is capacity constraint and when we approach that, we limit the access of new investors and we've done that in one of the credit funds. We've done that in Alpha Select.

The balance of GLG's investment management products are, in this environment, broadly unconstrained. So there is lots of space in emerging markets, lots of space in equity long/short, lots of space in global macro and that's true of the subsets of that as well in terms of North American opportunities and global opportunities funds which allocate across the GLG suite.

So yes, there are some capacity constraints in certain products where we limit access to them, but we're unlikely to be capacity constrained across the GLG business until we have spectacular success in asset raising.

**Daniel Garrod – Barclays Capital Markets**

I also have a question on the sort of gross management fee margins but in a different way. I wonder if you could comment the \$2.4b of April, May sales that you've outlined, how the gross management fee margins on those products compare to what you've put up on the detail on slide eight and hence what that sort of says about product mix influencing the direction of those margins?

**Kevin Hayes**

What we've given you on slide eight is an AHL open-ended statement which is that margins are stable. The product, the Japan product which is one of the big components to net flows in the eight week period since 31st March is a full margin AHL open-ended component. So the mix there is stable. It's not a decreasing mix.

**Daniel Garrod**

So that shouldn't bring down the 360 average on the open-ended then?

**Kevin Hayes**

No.

**Daniel Garrod**

How about the AHL/GLG structured product influencing?

**Kevin Hayes**

The AHL/GLG structured product is in the top line here.

**Peter Clarke**

That's a guaranteed product margin.

**Daniel Garrod**

In line with the average of the guarantee?

**Peter Clarke**

Yes, it is.

**Daniel Garrod**

Thank you.

## **Jeremy Grime – RBC**

It seems to me that the regulatory capital requirement was about \$1.3b pre-GLG and that has remained the same as your AUM has gone from \$40b to \$70b. Could you just give us a bit of colour on what you expect your requirement to do going forwards?

## **Kevin Hayes**

Sure. The first thing to note is that really our regulatory capital doesn't change with funds under management levels. It's really driven by the balance sheet items that we have around Seed investments, loans to funds which take normal capital charges. We obviously take a 100% capital charge for intangibles, goodwill and acquisition intangibles. It's a Tier One capital introduction for us and that's fully supported with shareholders' equity.

The other component is operating risk charges and they will not necessarily increase likewise with increases in funds. In actual fact, part of the initiative I mentioned around transferring asset servicing to third parties is also having a positive affect on our regulatory capital in the fact that that operational risk is transferred to the third party. So we think the regulatory capital position that we have is stable. We're comfortable with our \$300m buffer, so we're not expecting significant changes in capital as funds under management increase.

## **Jeremy Grime**

Thank you.

## **Bruce Hamilton – Morgan Stanley**

Firstly, on the flows pipeline, in terms of the institutionals, you are talking still about the \$2b that's yet to fund but you didn't give any colour on any sort of additional wins or where you might be on sort of RFPs. Can we get a little bit of colour there?

I guess more broadly, it looks like you've raised a couple of billion in the first two months of the year albeit with an above average Japan launch. As you think for the full year, I think most folk are looking for sort of \$5b to \$6b for a full year. Does that strike you as realistic given what you've seen and given the strength in Japan, or is that global?

Secondly, on the operating margins, as well the comp to revenues, what assumption are you making on performance fees in those numbers? Is it similar to what we've just seen in the last year or is it sort of higher?

Then thirdly, on surplus capital, Peter, it sounds like you're saying the genuine surplus is certainly not \$900m. Can you give any further guidance on where you feel the real surplus level is then as we think about possible distributions going forward?

## **Peter Clarke**

Okay. I wrote down four of your three questions, so I think there was a subset. The first one was two in my calculation.

So firstly, on timing and flows around Multi-Manager managed account wins, yes, there is \$2b to fund there. One of the reasons it takes a long time, as I think I have mentioned to you before, is that people think managed accounts are just a sort of quick and easy solution. They're intensely structurally complex and you have to do each one per manager.

The USS, the Universities Superannuation Scheme, here in the UK, that \$1b is still less than half funded. So that accounts where you get the two because you add the one and a half of BVK. It's slow because in their case they've gone for offshore structures.

You can't just transpose the thinking across the BVK. They want an onshore structure. So they're having an EU domiciled entity to hold their managed account structures through. So intensely complex.

The good news is that those regulatory approvals for those structures are through. They are going to start funding the BVK one. It starts funding in June and then progressively will fund across the balance of the year. So I would say that we will get \$1b of that too in the course of the next eight monthsish if it all goes to plan. So we've got to a stage where execution is going through to fund flows.

In terms of other things, there are some other elephant deals around as it were in terms of people that are looking at doing this. Until they actually do it, we don't know whether they're looking at it or serious about it. But there are a few very large deals that potentially we would seek to secure over the future, but there is nothing imminent on that. Our effort is to convert the mandate wins into assets primarily in the near-term.

On the second question which is \$5b consensus and is that realistic, achievable or whatever? I've always said I'm not going to get drawn on forward sales or performance. You will have to take your own, make your own assessment of the data that we've given. What we've tried to do, particularly in my section here today, is explain to you that there is a whole set of differentiating factors about what we can do and other people can't do and if there are industry flows and we continue to perform in line with expectations, we are going to pick up those flows. But you need to put in your own assumptions around the way you come out for the year.

I think the third one is for Kevin, but if I can just jump to the fourth one on surplus, it is surplus in the sense that Kevin mentioned we have a \$300m cushion. So we like to keep \$300m of surplus. We're at \$900m. That \$600m is surplus in any mathematical sense. But as I say, at the moment, we view the franchise value, the credibility value of holding surplus capital and the opportunity value in doing so to outweigh any wish to return it because we think there might be things we'll do. At some point in the future, as we accrue capital, as we look at those opportunities and they do or don't transpire, we'll look at ways of returning it. I think our shareholders will prefer us to invest the capital where we think we can do so sensibly to grow the business profitably. But if at the end of the day we don't need it, we'll return it, quite simple.

### **Kevin Hayes**

Bruce, on compensation ratios, I think a walk through the general percentages. There is a difference between the AHL, which is the systematic business, and the discretionary business which is predominantly the GLG business. So historically, Man would generally accrue around about 20% compensation to revenue on the performance fees of AHL. We've given you a high water mark today. I think there is a lot of transparency around AHL and performance, so I think again, and we've given you FUM breakouts for GLG and AHL FUM. I think that should give you a pretty good sense of net performance fees and compensation.

On the GLG side we've sort of indicated 65%. We've said we've given you a sort of a performance benchmark on the performance fee eligible fund for GLG and again there is a lot of transparency around performance. Remember that GLG books performance fees in June and December. So it's really the June period where you would look to book performance fees.

### **Bruce Hamilton**

Thanks.

**Chris Smith – Panmure Gordon**

Morning. Just a quick one on gearing in the guaranteed product, what's your feeling going forward in terms of likely gearing there? I see obviously there is a \$2b extra in the last year.

**Kevin Hayes**

So a couple of things. One is capacity and availability. We continue to see very strong appetite from our banking partners to provide the leverage to these structured products. More and more we're doing them in the CPPI format which seems to have, for us, it's a very effective ways of providing that leverage into the products and it is for the life of the transaction which removes from us the role risk of having to roll bilateral facilities. So that's actually working very well and the products that we've launched so far have all been in the CPPI format.

There is about \$2.9b leverage in the guaranteed products and last year that number was \$2.6b, so it's not increased markedly.

**Jonathan Richards – Bank of America-Merrill Lynch**

A couple of quick questions. What areas are you guys looking to broaden your talent pool in? I know that you had said you're looking to expand in terms of talent. I guess the flipside of that question is what are some of the new products that you guys are developing and could you give us some examples?

Lastly, apart from IP220, where is GLG seeing demand in terms of product sales?

**Peter Clarke**

Okay, thanks Jonathan. A lot in all that. I mean on the talent side, as an organisation we're always trying to recruit talent. Where the focus is I guess at the moment, I think I touched on in the presentation when I described as two buckets. Investment management where we obviously continue to want to build out the investment management talent which is partly, as I say, around getting people close to markets. So emerging markets, for example, talent, putting that in the Middle East, in Hong Kong as well as in Europe and London. So building out that talent pool to get proximity to the investors and to the markets is important.

In North America, that talent is largely a recruitment process around sales people. We've got product. We need access in terms of sales.

In terms of new products, we have sustainability funds, we have natural resource funds. There are a range of GLG thematic fund opportunities which are designed to meet investor appetite. We have the Man Systematic strategies opportunities. There is the ETF I talked about. There is a volatility tail protect product in there and there are plans to launch both a commodity and fixed income systematic product out of that.

So there is actually a lot going on, on the product front, but don't overlook the product attributes around the mainstream returns as well. So like the AHL Japan fund. I mean it was successful not just because it was AHL, but because it had currency and dividend attributes and daily liquidity. So some of those attributes around the core return stream are important alongside that as well.

**Steve Keeling – Singer**

I wanted to ask, on the \$13.7b of assets that you lost through redemptions, you mentioned redemption rates trending back to trend. How is that split out across your sort of four product categories and how do you expect that to develop?

Then lastly, how are you treating sort of redemption penalties at the moment? Do you have redemption penalties, particularly on the new fund that you've just launched with Nomura? So i.e. how locked up are people before they have to pay a penalty?

**Peter Clarke**

I'll give you the generic answer on the first set of that if I could. The place where we've seen outflows and we've reported these obviously over the last quarters, is institutional fund-of-funds mandates which is where the industry generally has seen outflows and we've seen those.

Secondly, we saw outflows at the height of the crisis out of guaranteed products. It may be irrational but there was liquidity on offer and people took it, so the guaranteed products have seen outflows with, as you've seen, little inflows and net against that, although the \$400m, the \$350m synergy, the \$400m GLG product is beginning to show there is life around private investor structured product. But basically, it was a one-way outflow for a period of nearly two years there actually.

Then the last point which is a more sophisticated one in a sense is around the GLG product where you will see that because we counter-switch as a sale and a guarantee, if an investment, institutional investor or endowment or a pension fund whatever decides to move from a commodity fund to equity long/short they redeem and they subscribe. So some of that is around portfolio views, return expectations, our own view about directing where the client should go. So it's a sort of a combination of those things.

On the Nomura fund, it's an open-ended product. There is no redemption penalty at all.

**Hayley Tam – Citigroup**

Can I have two quick follow up questions and one the same question as everyone else but asked in a different way? In terms of the two follow up questions, can I just clarify quickly on the GLG compensation revenue numbers that you've given us? The 65% should be applied to management fees and performance fees that we're forecasting. Is that the first correct conclusion?

**Peter Clarke**

Correct yes.

**Hayley Tam**

And secondly, on the management fee margins you've given on slide eight, can I just confirm that those margins are actually net of the interest expense that you will no longer be including within the line?

**Kevin Hayes**

The margins that we've given on eight, just to be very clear, they are gross management fee margins. These are top line margins. These are the margins that the investors are paying. There is no interest effect here. The interest line is really our corporate interest line relating to our debt issuance.

**Hayley Tam**

Okay, thank you. Then the final question, if I split your AUM into five buckets, I'm thinking about the open-ended AHL, open-ended GLG, guaranteed, institutional and the long only, they're all pretty much the same amount of assets now some \$13b to \$15b. You've outlined a huge raft of growth opportunities for you today, but I would characterise those in my mind as perhaps being more on the open-ended AHL side, open-ended GLG and the institutional. Would that be incorrect to sort of think those are the three areas of focus for you now?

**Peter Clarke**

Well it would be incorrect in the sense that they're an area of focus, but it would be correct in expectation of where we're most likely to see flows if you see what I mean. One of the advantages of the GLG transaction was to provide us with a range of open-ended product opportunities because that's what investors want to buy.

We are, of course, naturally inclined to market and sell, raise assets for guaranteed product, but the demand for guaranteed product is significantly lower than it was three years ago. There are signs of life there as I was indicating Hayley, but it still remains a much smaller component of our net flows and in fact it has been a negative net flow of the past. Now that may change and we may see net inflows into guaranteed product off a lower base. But our expectation is that open-ended products which is where people want onshore frequent liquidity, regulatory supervision or regulatory choice of product format like UCITS, that's what people are buying and that's true of institutions as well as the private investors to be honest.

So our focus has been to supply that market with the range that we have, but also, we would love to sell more guaranteed products and that's quite regionally specific about where that demand sits. But there are signs of life, as I say.

So our focus, our capability is to sell all. You're right though that current demand tends to sit in that open-ended component of our product set, but it's complementary, it's incremental. We would like to do more of all of it, but we are demand led ultimately.

**Hayley Tam**

Thank you.

**Peter Clarke**

Did anyone else have a question? No, otherwise we've taken up a lot of your time. Thank you very much indeed.