

**Close Brothers Group**

**Asset Management Division**

**Presentation to Investors and Analysts**

**22 April 2009**

# Cautionary statement

## Regarding information in this presentation

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# Agenda

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1. **Introduction – Jonathan Howell, Group Finance Director**
2. **Presentation on Asset Management Division – Martin Andrew, Chief Executive Asset Management**
  - Overview
  - Private Clients and Funds
  - Banking and Administration
  - Operational Efficiency
  - Summary
3. **Q&A**



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# Introduction

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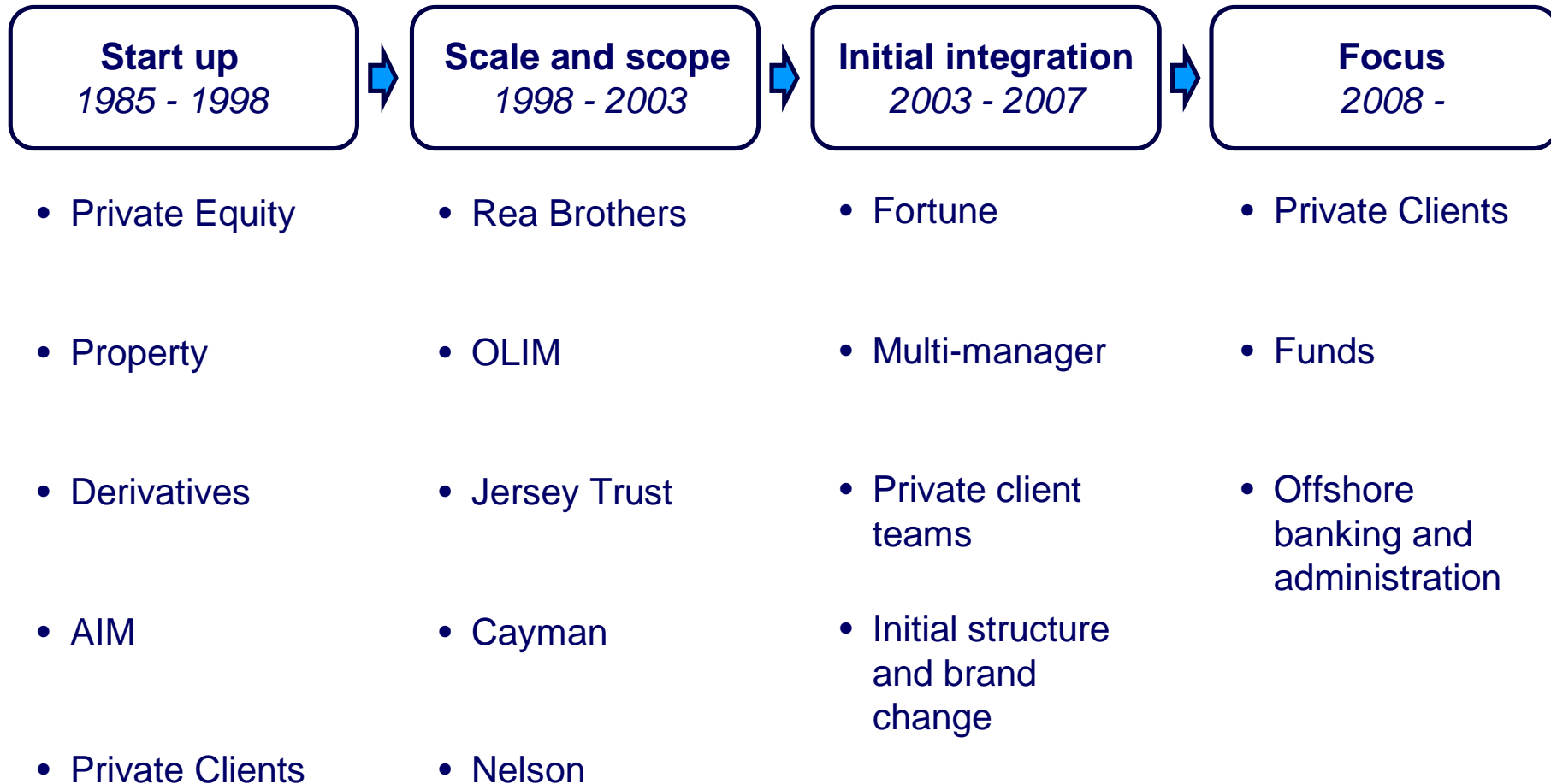
- The Asset Management Division developed via acquisitions over 20+ years
- Encompassed a diverse range of autonomous businesses and capabilities
- Generated significant profit growth to 2007
- Restructuring to improve focus and deliver improved results



# Asset Management Division

## Development history

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# Asset Management Division

## Summary

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### Asset Management Division

- Retain business diversification
- Increase focus on 3 core areas
- Restructure and integrate internally to improve efficiency and growth

#### Private Clients

Wealth and discretionary investment management for private clients, onshore and offshore

#### Funds

Range of specialist investment management capabilities for retail and institutional clients

#### Banking and Administration

Range of banking and administration capabilities in Cayman, UK offshore islands and South Africa



# Asset Management Division

Key figures – as at 31 January 2009



## Asset Management Division

Funds under Management (FuM)	£6.9 bn
Assets under Administration (AuA)	c. £24 bn <sup>(1)</sup>
Headcount	803
Operating income <sup>(2)</sup> 2008	£133.5 m
Operating income <sup>(2)</sup> H1 2009	£49.9 m

### Private Clients

### Funds

### Banking and Administration

Operating income <sup>(2)(3)</sup> 2008	£79.5 m
Operating income <sup>(2)(4)</sup> H1 2009	£29.4 m

Operating income <sup>(2)</sup> 2008	£41.8 m
Operating income <sup>(2)</sup> H1 2009	£20.7 m

FuM	£3.1 bn	FuM	£3.7 bn	AuA	c. £24 bn <sup>(1)</sup>
Headcount	277 <sup>(5)</sup>	Headcount	133 <sup>(5)</sup>	Headcount	384 <sup>(5)</sup>
Net new funds H1 2009	£68 m	Net new funds H1 2009	£(61) m		

**Notes:**

(1) Includes offshore banking deposits

(2) Operating income refers to adjusted operating income before exceptional items, as defined in the Annual Report and Accounts

(3) Excludes £12.2 million of Performance fees and investment income

(4) Excludes £(0.2) million of Performance fees and investment income

(5) Excludes central executives, finance, HR and other

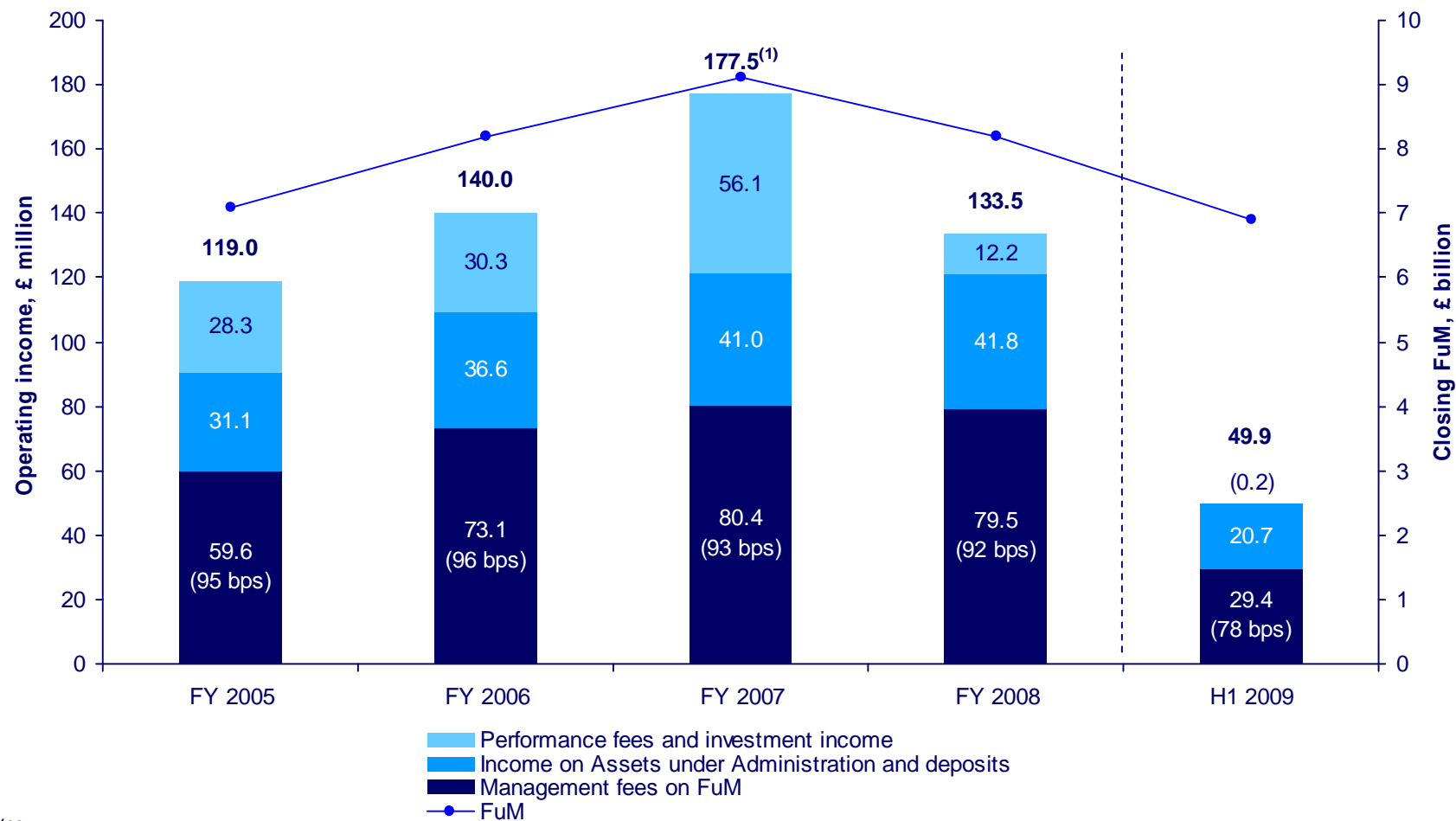
All years refer to financial year to 31 July





# Asset Management Division

## Income analysis



Notes:

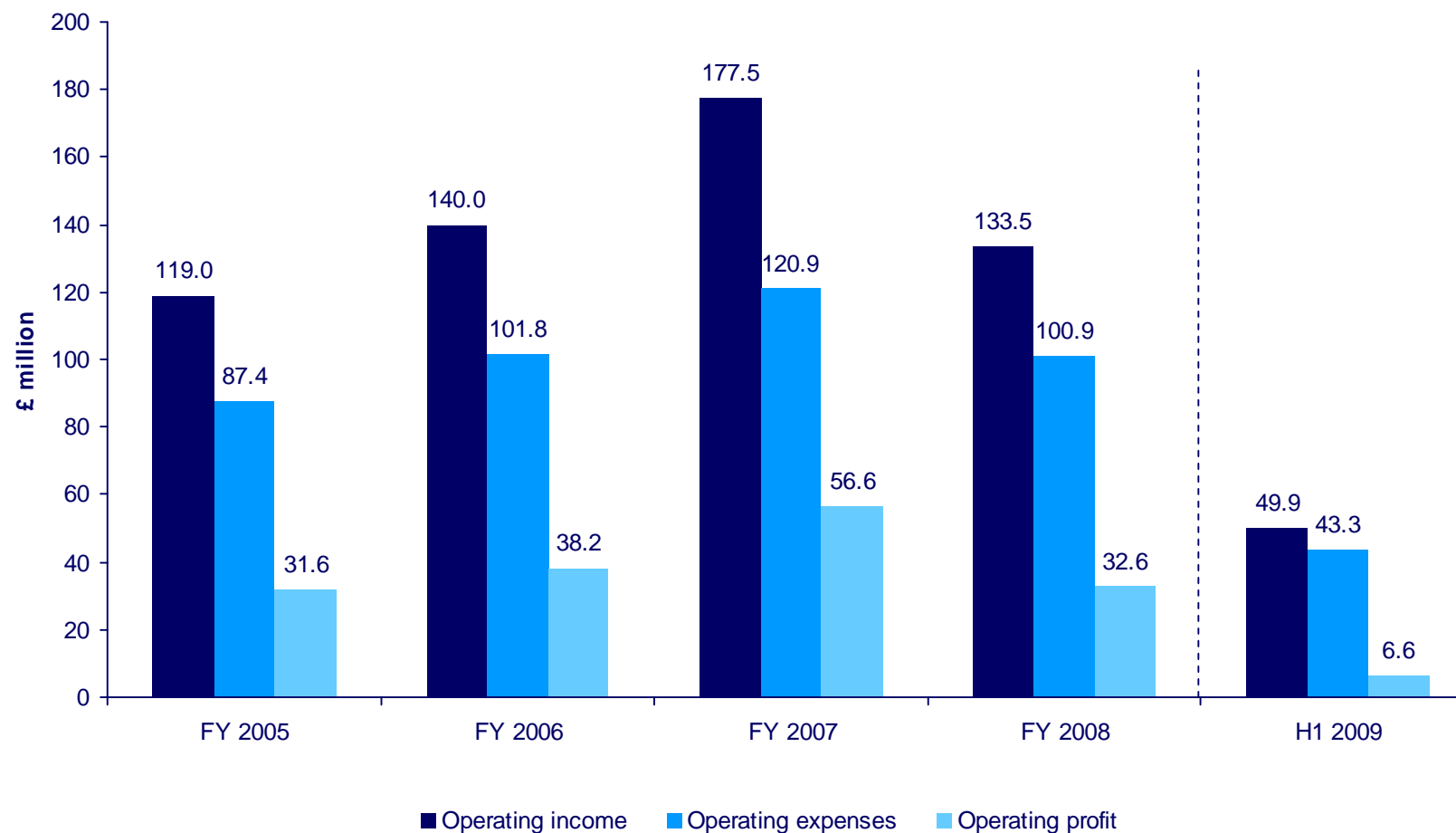
(1) Excludes £21.1 million exceptional income related to private equity performance fees and investment gains.

All figures refer to adjusted numbers before exceptional items, as defined in the Annual Report and Accounts



# Asset Management Division – financials

Operating income, operating expenses and operating profit



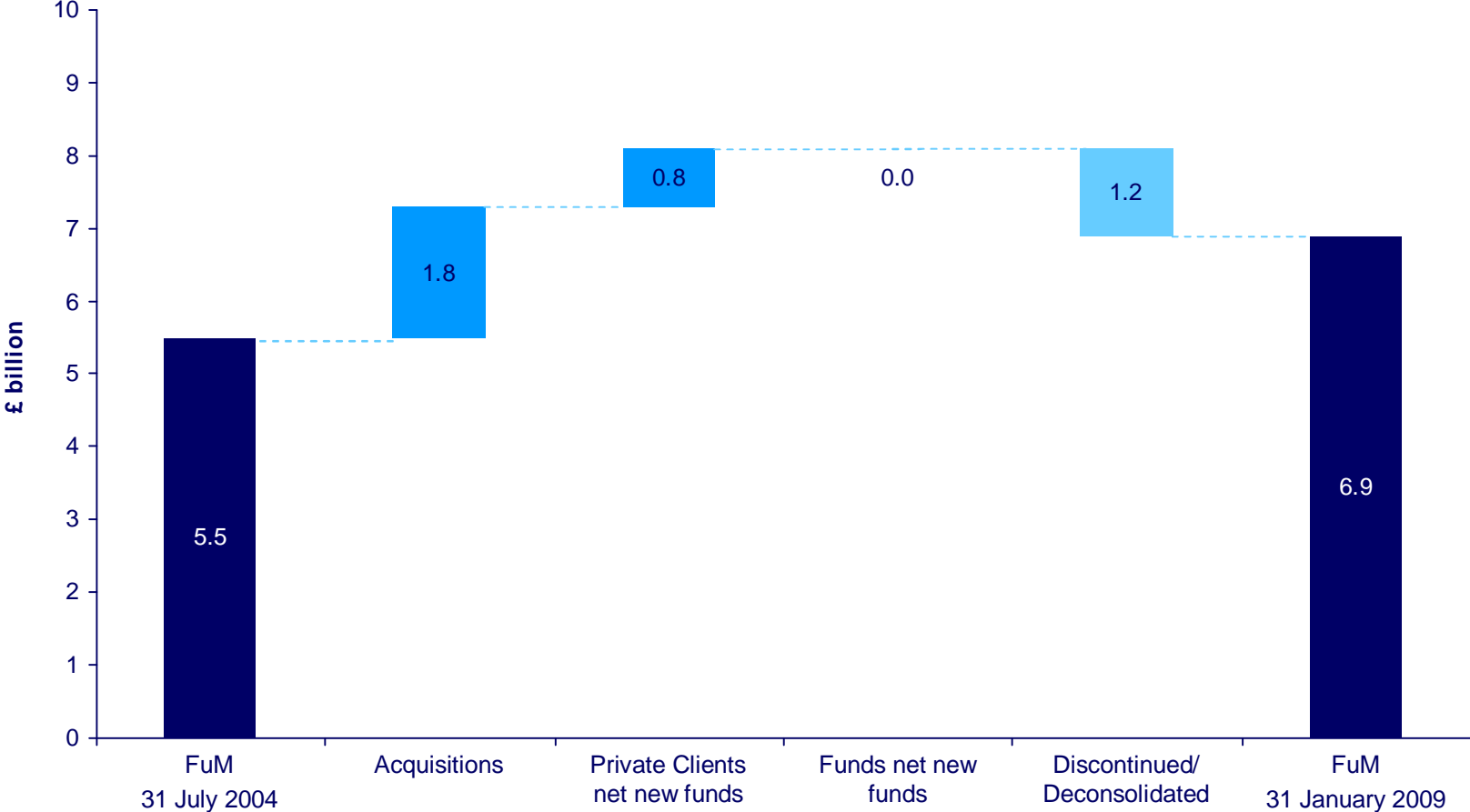
Note:

All figures refer to adjusted numbers before exceptional items, as defined in the Annual Report and Accounts



# Movement in FuM

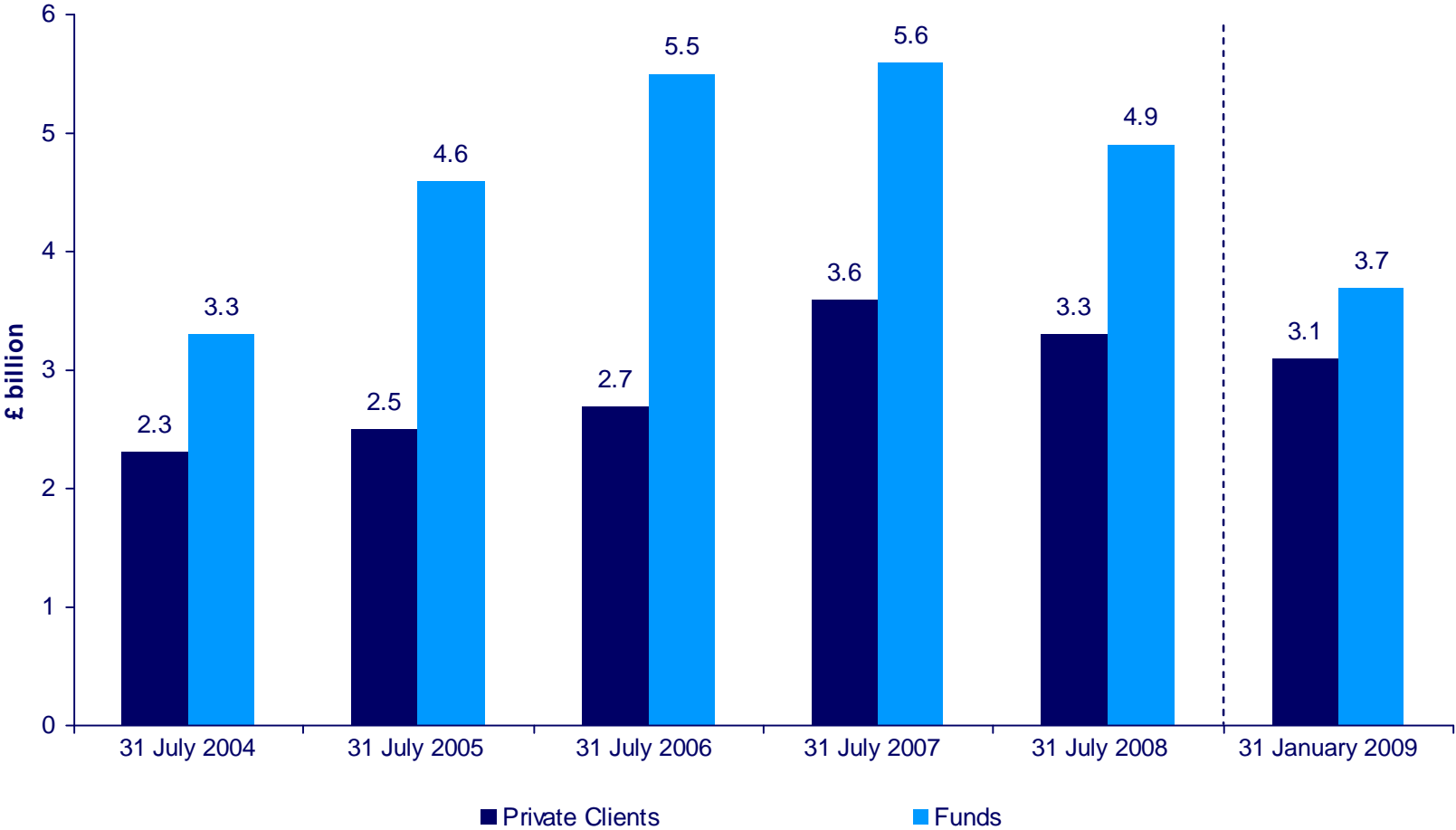
31 July 2004 to 31 January 2009



Note:  
Net impact of market movement and performance across the period is zero. FTSE 100 movement in the same period is a decline of 6%.

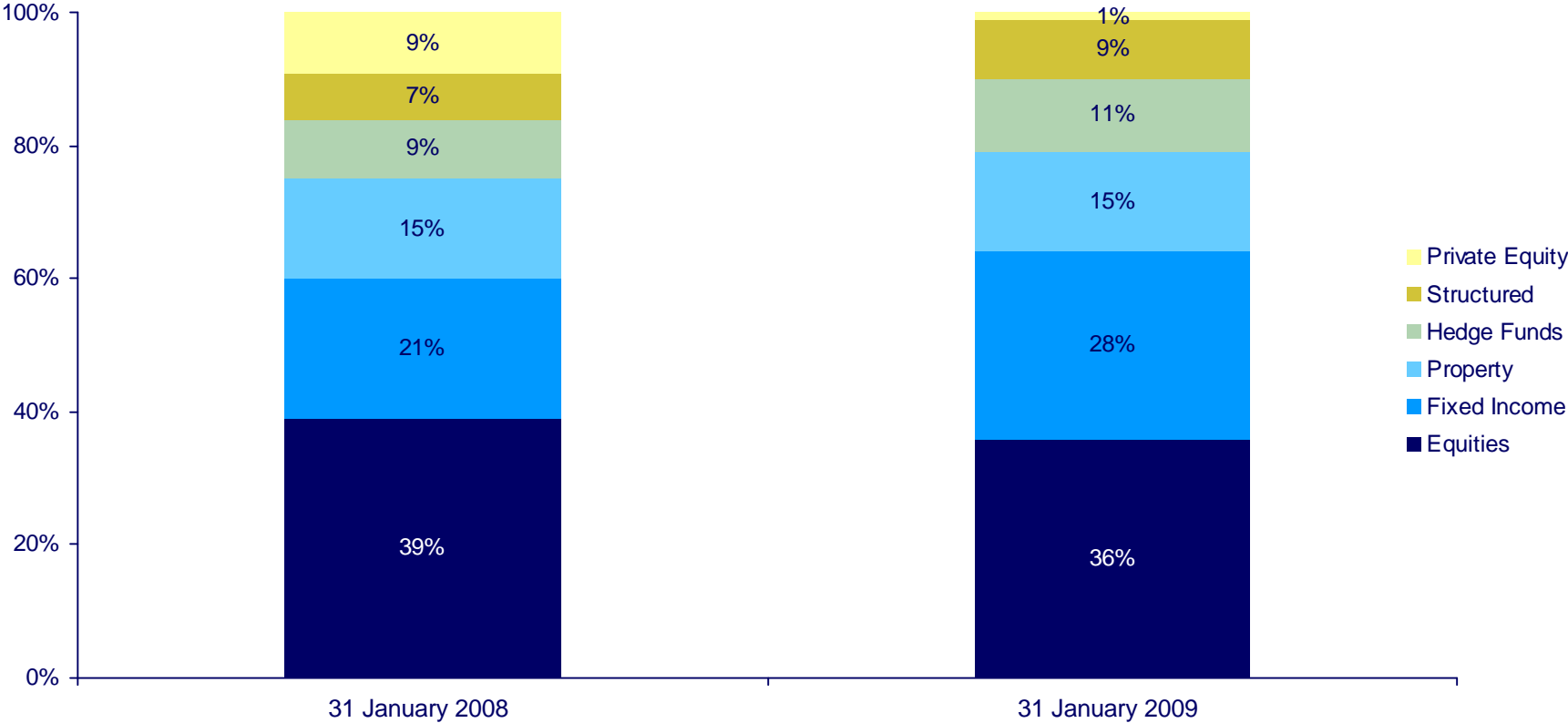


# FuM by Private Clients and Funds



# FuM by asset class

H1 2008 to H1 2009



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# Private Clients and Funds

Overall themes



- Integration for efficiency, scalability and growth
- Primary focus on UK individual investors
- Dual channel distribution
- Secondary focus on institutions and international
- Primary focus on multi-asset “Managed Solutions”
- Secondary focus on specialist propositions



# Private Clients

Overview – as at 31 January 2009



## Bespoke HNW

- Discretionary investment
- £1.8 bn FuM<sup>(1)</sup>
- c. 2,000 clients
- c. 90 bps revenue margin<sup>(2)</sup>
- 34 PMs/RMs
- 73 headcount<sup>(3)</sup>
- London, Manchester, Jersey
- Referral distribution

## Modelled mass affluent

- Discretionary + wealth management
- £1.3 bn FuM
- c. 20,000 clients
- c.140 bps revenue margin<sup>(2)</sup>
- 6 PMs + 32 RMs + 23 Relationship Assistants
- 204 headcount
- London, Cheshire, Stirling
- Direct distribution (employers, direct mail)

Notes:

(1) Includes Jersey, discretionary and collectives FuM

(2) Management fees on FuM/average FuM

(3) Includes Jersey headcount





# Private Clients

## Assessment



### Bespoke HNW

- Good investment performance
- Good net sales growth
- New system
- High quality people
- No scalable distribution as yet
- No financial planning as yet

### Modelled mass affluent

- Segmented business model
- Scalable investment approach
- Proprietary IT system
- Financial planning
- Low cost base
- Low average account size
- Dedicated but narrow distribution



# Private Clients

## Strategy themes



- Long term growth potential in mid-HNW market
- Exploit industry trends
  - Retail Distribution Review
  - TCF<sup>(1)</sup>
  - IFA<sup>(2)</sup> consolidation
- Demand for discretionary from IFAs
- Dual channel distribution
- Scope to exploit both our business models
  - Take discretionary (bespoke + modelled) to IFAs
  - Move direct distribution further up-market
  - Broaden direct distribution
  - Financial planning to all direct clients
- Internal efficiency improvements

Notes:

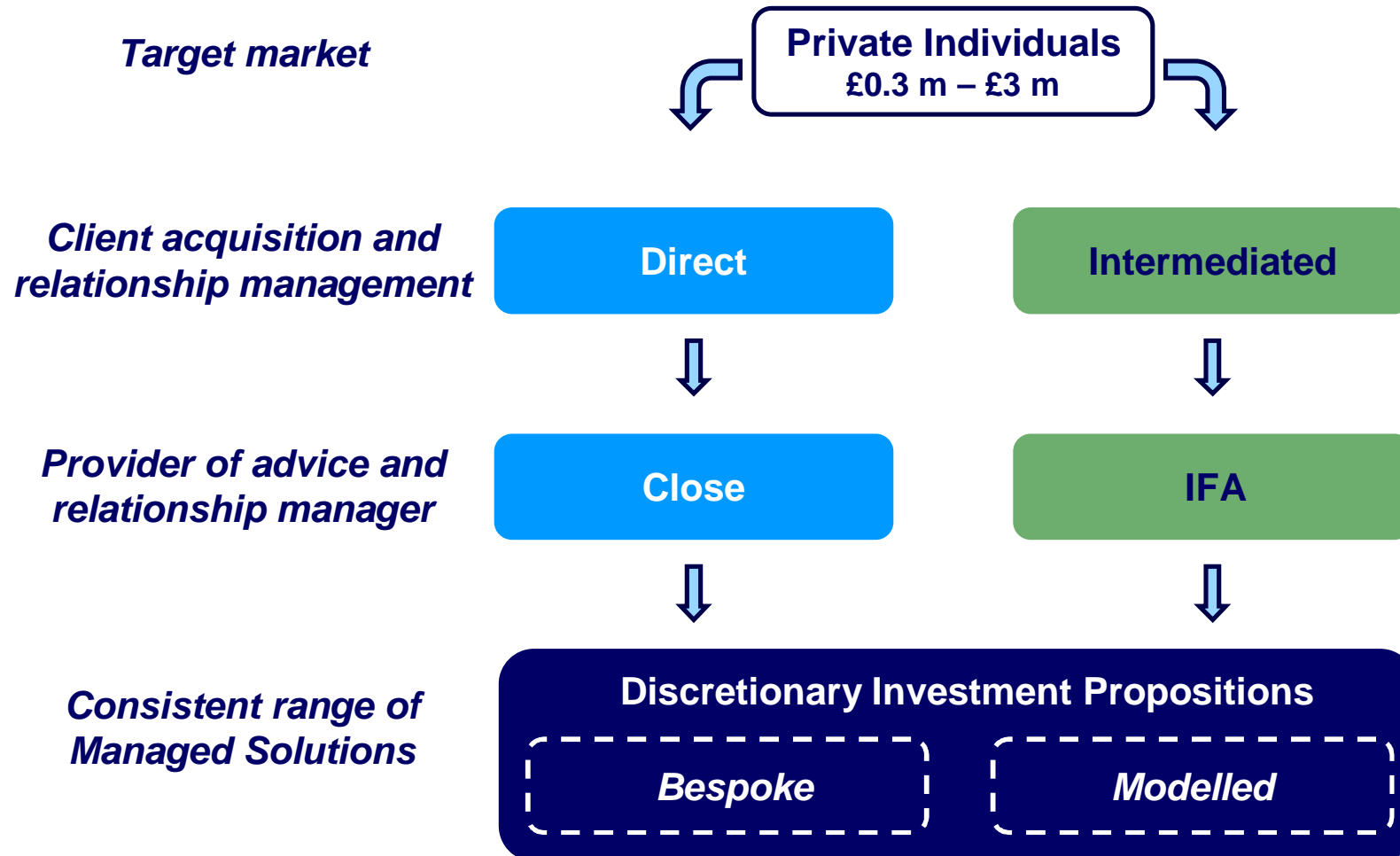
(1) *Treating Customers Fairly*

(2) *Independent Financial Advisor*



# Private Clients

Business model and Managed Solutions



# Funds

Overview of specialist capabilities – as at 31 January 2009



Multi-manager	Fortune	Property	Structured	OLIM
<ul style="list-style-type: none"> <li>• Long-only manager of managers</li> <li>• £1.1 bn FuM</li> <li>• 11-20 bps revenue margin</li> <li>• 120 UK institutional clients</li> <li>• London</li> </ul>	<ul style="list-style-type: none"> <li>• Hedge fund advisory and funds-of-funds</li> <li>• £0.7 bn FuM</li> <li>• 25-65 bps revenue margin</li> <li>• International institutional, family office, wealth manager clients</li> <li>• London, New York</li> </ul>	<ul style="list-style-type: none"> <li>• Residential and commercial funds, fund-of-funds, tax products</li> <li>• £0.7 bn FuM</li> <li>• 70-200 bps revenue margin</li> <li>• UK HNW, retail, IFA clients</li> <li>• London</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Escalator</i> open-ended funds</li> <li>• Closed ended structured investments</li> <li>• £0.6 bn FuM</li> <li>• 35-70 bps revenue margin</li> <li>• UK institutional, retail, IFA clients</li> <li>• London</li> </ul>	<ul style="list-style-type: none"> <li>• UK value and income equity, UK commercial property</li> <li>• £0.6 bn FuM</li> <li>• 30-50 bps revenue margin</li> <li>• UK institutional, charity and HNW clients</li> <li>• London</li> </ul>



# Funds

## Assessment and opportunities



### Assessment

- Strong hedge fund research and advisory capability
- Scalable long-only multi-manager
- Long standing derivatives expertise
- Small scale in most areas
- Difficult current environment in hedge funds-of-funds and property

### Opportunities

- Optionality when cycles turn in specialist areas
- Consolidation in hedge funds-of-funds space
- Managed Accounts and hedge fund advisory
- Leveraging specialist capabilities in Managed Solutions
  - Multi-manager
  - Hedge funds
  - Derivatives
  - Property



# Actions to date

Private Clients and Funds



- 
- Integrated sales and marketing structure – October 2008
  - New head of UK distribution – October 2008
  - New sales leadership for each channel – Q4 2008
  - New direct mail pilot – May 2009
  - Integrated investment organisation with new leadership – March 2009
    - Chief Investment Officer
    - Investment Director
  - Employee transfers to single company – 1 April 2009
  - Legal entity integration and single branding – 1 May 2009



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# Banking and Administration

## Overview UK Offshore Islands



### Banking

- Deposit taking
- FX
- Debit cards
- Links with Close Trust, Fund Administration and Asset Management
- Mid net worth private clients and corporates
- Isle of Man, Guernsey

### Trust

- Corporate (EBTs<sup>(1)</sup>, pension, captive insurance)
- Private client (trusts, companies, foundations)
- Wrappers (short form, pension, “QROPS”<sup>(2)</sup>)
- Jersey, Guernsey, Isle of Man

### Fund Admin

- Accounting, pricing, transfer agency
- Property, hedge funds-of-funds, private equity
- Cost and scale advantage in South Africa
- Guernsey, South Africa

Notes:

(1) Employee Benefit Trusts

(2) Qualifying Recognised Overseas Pension Scheme – a scheme recognised by HMRC but designed for UK expatriates





# Banking and Administration

UK Offshore assessment and opportunities



## Assessment

- Links between businesses
- Revenue diversity
- Operational gearing in bank
- Fund administration capability in South Africa
- Uncertainty due to political rhetoric about offshore centres
- Market environment impact on fund administration
- Scalability in Trust

## Opportunities

- “QROPS<sup>(1)</sup>”
- “Manufacturing” in South Africa
- Fund administration consolidation

*Note:*

*(1) Qualifying Recognised Overseas Pension Scheme – a scheme recognised by HMRC but designed for UK expatriates*





## Banking

- Deposit taking
- FX
- Links with Close Trust, Fund Administration and Asset Management

## Trust

- Private client trust
- Corporate trust

## Fund and Fiduciary

- Fund administration
- Fiduciary services
- Hedge fund and funds-of-funds





### Assessment

- Revenue diversity and low correlation to markets
- Acquisition record
- Uncertainty due to political rhetoric about offshore centres
- Hedge fund exposure

### Opportunities

- Further growth in core areas
- Latin America



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# Operational Efficiency

## Overview



- Objectives
  - Improve scalability
  - Improve quality and functionality
  - Reduce complexity
- Wide-ranging, long-term initiative
  - Ongoing investment in project management
  - Strategic projects
  - Tactical wins
- Examples
  - Headcount reductions FY 2008, FY 2009
  - 80 heads and c. £8 million of annualised cost savings<sup>(1)</sup>
  - Consolidated supplier management
  - Single legal entity, single brand, single dealing desk
  - Increased use of Pulse<sup>(2)</sup> system
  - Flexible use of locations

Notes:

(1) Includes some non staff costs

(2) Our core investment management system



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# Asset Management Division

## Summary



- 
- 3 core areas representing blend of growth, stability and diversification
  - Private Clients
    - Strong business position
    - Alignment to key changes in the industry
    - Scope to grow organically and inorganically
  - Funds
    - Opportunistic development by acquisition
    - High-quality capabilities
    - Impact of current market environment
    - Optionality when cycle turns
  - Banking and Administration
    - Resilient
    - Diversifier



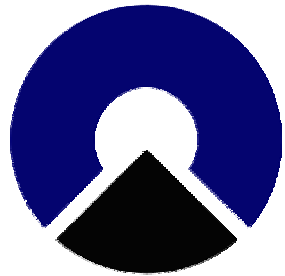
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**Asset Management Division**

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# Appendix

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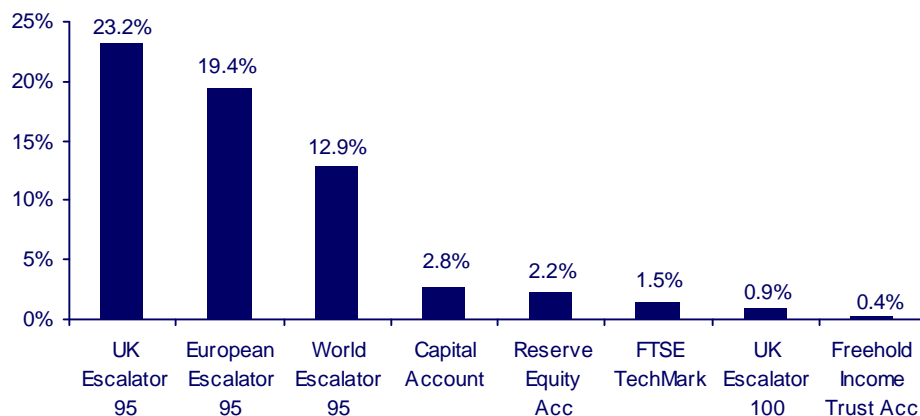
- Fund performance summary
- Private client performance
- Senior management biographies



# Relative fund performance versus benchmark

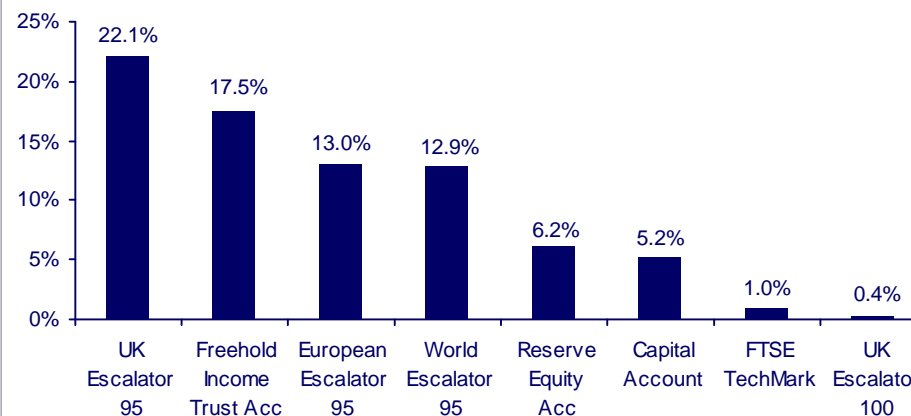
## Open ended funds

### One year



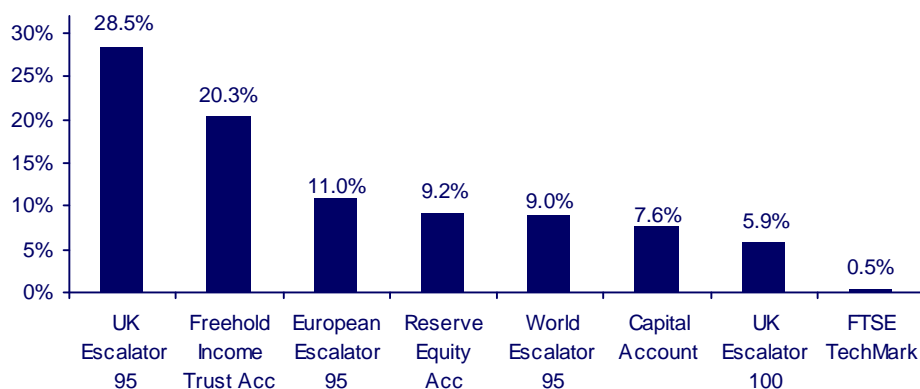
Source: Close Brothers and Lipper Hindsight. Percentage growth on a bid to bid basis net of basic UK income tax (1 year to 31/1/09).

### Three year



Source: Close Brothers and Lipper Hindsight. Percentage growth on a bid to bid basis net of basic UK income tax (3 years to 31/1/09).

### Five year



Source: Close Brothers and Lipper Hindsight. Percentage growth on a bid to bid basis net of basic UK income tax (5 years to 31/1/09).

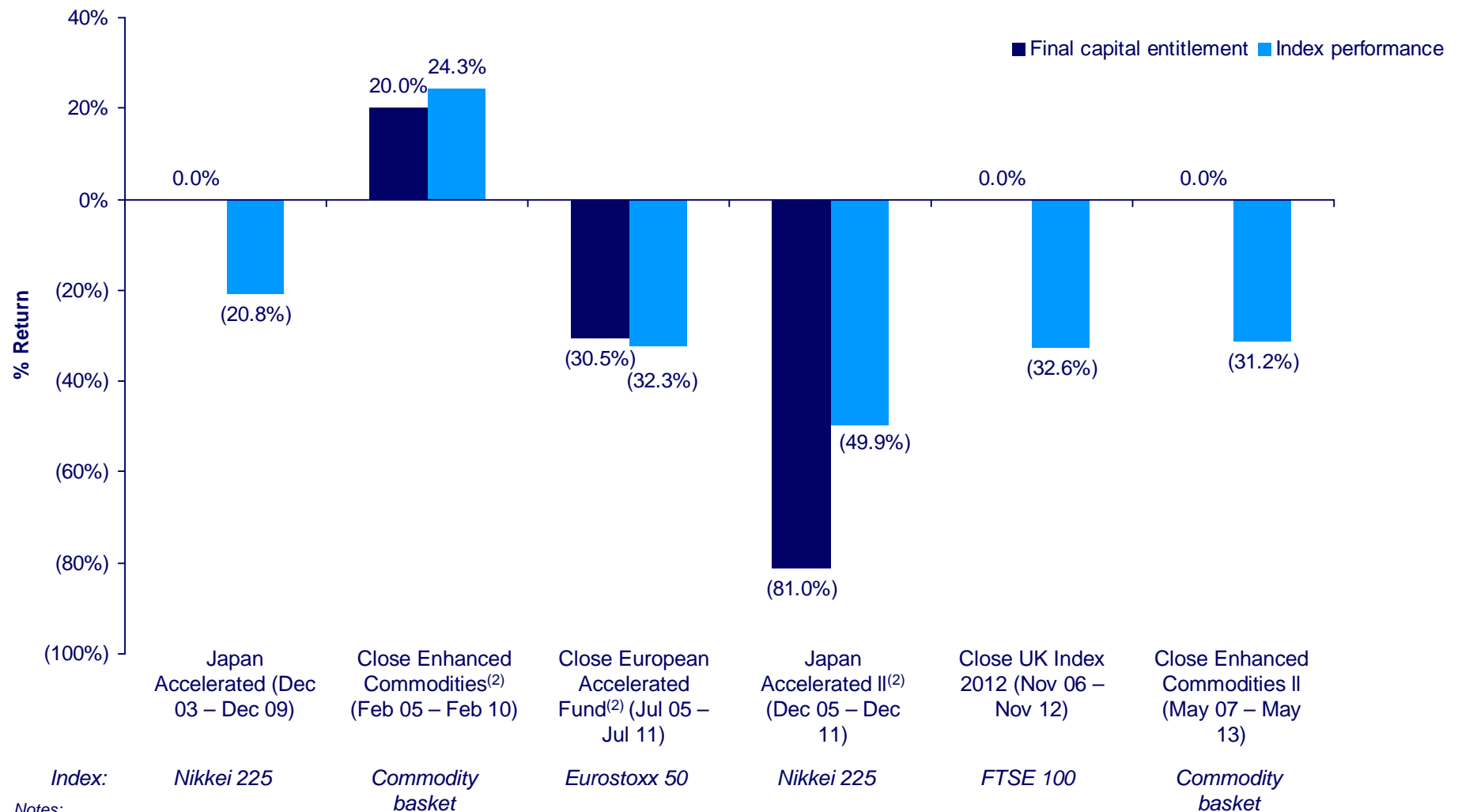
Fund	Benchmark
UK Escalator 95	FTSE 100
European Escalator 95	FTSE Europe ex UK
World Escalator 95	FTSE World ex UK
Capital Account	IMA Money Market
Reserve Equity Account	FTSE All Share
FTSE TechMark	FTSE techMARK 100
UK Escalator 100	IMA Money Market
Freehold Income Trust Acc	IMA UK Gilt

All index returns are capital returns only



# Closed ended structured investments – Final capital entitlement<sup>(1)</sup> vs index movement

From launch to 31 January 2009



Notes:

Source: Close Brothers and Bloomberg.

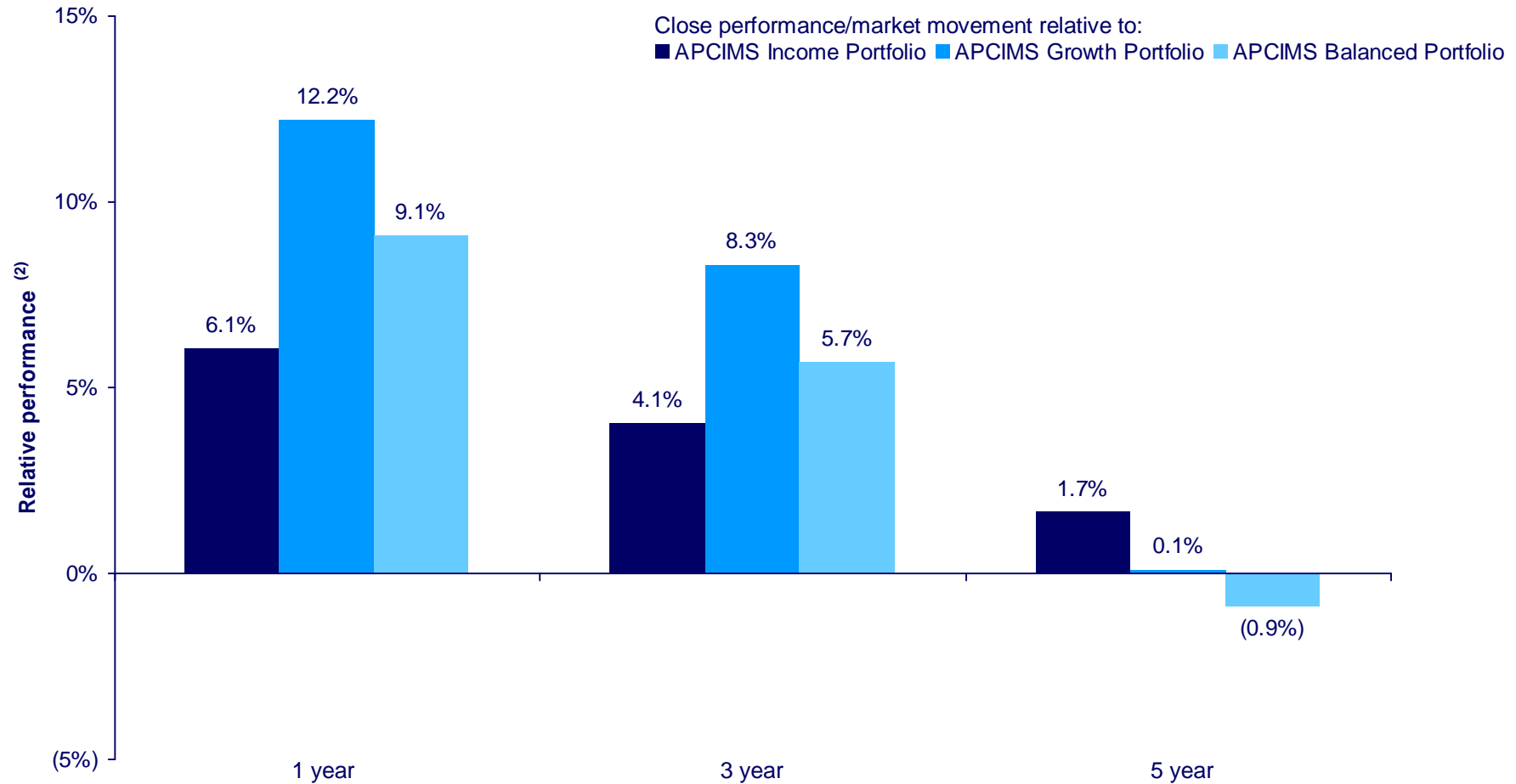
(1) Final capital entitlement if respective indices remain at 31 January 2009 levels

(2) Assuming default and zero recovery rate in respect of debt securities issued by Icelandic Banks.



# Close Asset Management Private Client performance/market movement vs APCIMS<sup>(1)</sup>

To 31 January 2009



Note:

(1) Association of Private Client Investment Managers and Stockbrokers

(2) Calculated as the market movement element of Private Clients FuM movement (i.e excluding net new funds movement) over the stated time period relative to the respective APCIMS index

Source: Close Brothers and Bloomberg



# Asset Management – senior management experience

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- **Martin Andrew CEO – Asset Management**  
- Joined from Merrill Lynch in 2005, originally as head of Private Clients business. Took over as Chief Executive of the division in 2008
- **Andrew Henton – Head of UK Offshore**  
- Joined Close Brothers in 2001 initially in a group principal investment role. Has held responsibility for the UK offshore businesses since 2004
- **Julian Daly – Finance Director**  
- Finance Director of the Asset Management division since 2000 and has line responsibility for the division's Cayman businesses and OLIM
- **Stuart Dyer – Head of UK Distribution**  
- Joined Close Brothers in 2006 as head of the UK offshore fund administration and trust businesses. Appointed head of UK distribution in 2008
- **Richard Curry – Chief Operating Officer**  
- Joined as Head of Operations for Close Private Asset Management in 2006, becoming Chief Operating Officer for the Close Wealth Management Group in 2007
- **Simon Hopkins – CEO Fortune**  
- Established Fortune in 1996. Close Brothers Group plc acquired a controlling interest in 2006
- **Nigel Ashfield – Head of Property**  
- Joined Close Brothers in 2001. Appointed Managing Director of the Property team in January 2009
- **Richard Killingbeck – Head of HNW**  
- Joined Close Brothers in 2005. Was appointed as deputy Chief Executive Officer of Close Investments in 2006 and as Chief Executive Officer of Close Private Asset Management in 2008
- **Mark Bray – Chief Investment Officer**  
- Joined Close Brothers in 2004 with over 20 years of fund management experience including at Credit Suisse First Boston, Exane SA and Gerrard
- **Adrian Swales – Investment Director**  
- Joined Close Brothers as CEO of the Multi Manager business with the purchase of Aon Asset Management in 2007

