Close Brothers
Asset Management Seminar
Tuesday, 04 December 2018
16.00

Preben Prebensen – Group CEO
Good afternoon and welcome to today's Presentation on our Asset Management Division. It has been some time since we spoke in detail about our Asset Management Business. Today is an opportunity to hear directly from members of our Asset Management Leadership Team about our approach to the UK wealth management market, our strong client proposition and the benefit to Close Brothers in terms of financial performance and future growth prospects.

I will shortly hand over to Martin Andrew, CEO of Asset Management who will give an overview of the Division's business model and strategy. And you will also hear from Andy Cumming, our Head of Advice and Nancy Curtin, our Chief Investment Officer and Head of Investments.

We expect the formal Presentation to wrap up in about half an hour, after which we will be happy to take your questions. And we hope that you will join us for a drink and more informal discussion after that.

As you know at Close Brothers we take a distinctive and differentiated approach to the financial services market. Our model is built on people and relationships and being experts in our markets, and on using that expertise to serve our clients better. We specifically target those segments of the market where clients value our personal service and expertise.

Our Asset Management Division is a clear example of this approach. It is a business built on long-term client relationships, expertise and a range of products and services to cater for individual client needs. We take a long-term and disciplined approach to growing and developing our businesses.

A number of years ago we took a strategic decision to invest and develop the Asset Management Division because we saw an opportunity to leverage our expertise and existing footprint in the UK wealth market. And the benefits of that investment have come through in recent years. In the last financial year the business achieved a 33% growth in adjusted operating profit, contributing 14% of Group operating income and 8% of Group adjusted operating profit.

And we see significant potential to grow and develop this business in the years to come.

And on that note I am pleased now to hand you over to Martin.

Martin Andrew – CEO Asset Management
Thank you Preben and hello everyone. By way of background, I joined Close Brothers in 2005 and have been CEO of Close Brothers Asset Management since 2008. We last presented to you on our business in 2011. In that presentation we set out our vision to build a new wealth management model with a strong client centric offering in advice and investment management and a broad nationwide distribution.

Our confidence in that vision was built on a few simple premises. First that the UK wealth management market was large and had attractive long-term dynamics. Market research estimates the size of this market at well over a trillion pounds. Second, the changes in this market driven by regulation, particularly at that time RDR, and evolving consumer behaviour would create industry change and growth opportunities. Third, financial advice would remain in strong demand and become an increasingly important capability for wealth businesses.

And finally, we saw a significant opportunity to offer a differentiated client centric proposition combining advice, investment management and scalable modern technology with strong client service and the Close Brothers brand.

We recognised the challenges of fee compression, advances in new technology and evolving regulation but we believed they also represented opportunities. And our experience has validated all these premises, and we are delivering attractive propositions to our clients and good financial performance for the group. All of this thinking led to our vertically integrated business model and our long-term technology plan.

Today Close Brothers Asset Management is a top 20 wealth manager with over £12 billion of client assets and nationwide presence through 9 offices, an adviser force of over 100, and an investment team of 65 people.

Our target clients are affluent and high net worth families in the UK. Broadly speaking affluent clients are those with between £200,000 and a million pounds of investable assets. And high net worth clients are those with more than a million pounds of investable wealth, generally between £1 million and £20-30 million. Across both segments our clients include professionals, business owners, retirees and trustees and we serve around 15,000 affluent families and around 2,500 high net worth families.

Our mission is to provide through one relationship, all the essential services that our clients need to manage their wealth as they progress through their lives and as their circumstances change. We deliver our services to clients through a dedicated relationship with a highly qualified and experienced professional - either a financial adviser or an investment manager, whose role is to act in the client's interests. Our relationships with the clients are deep and long lasting, often over generations.

The UK wealth market is fragmented in the type and number of different firms. Although we compete with all the firms on this page, the most similar to us are the vertically integrated firms. We were an early adopter of a vertically integrated model and we have had over ten years of experience of providing an integrated service across advice, investment and platform at the client level. It is worth noting that the distinctions between these various models are blurring. For example, IFAs are increasingly providing investment management and discretionary wealth managers are increasingly providing advice.

Our business model has two distinctive features. The first is that we have two core channels through which we source new clients. We distribute both directly through our own advisers and portfolio managers and on an intermediated basis primarily through third party IFA's. These two channels maximise the revenue opportunity for our scalable investment and platform capabilities.

The second feature of our model is that we are vertically integrated i.e. we have capabilities across the value chain of advice, investment and platform which we tailor to the needs of different clients and which again maximises our revenue potential.

We provide this fully integrated proposition to a significant proportion of our clients and these relationships are managed by our advisers. In addition, we have a significant number of larger clients who use our high net worth investment proposition and whose relationships are managed by our bespoke investment managers. Increasingly, our advisers and investment managers work together on clients and we find the combination particularly effective in winning new clients.

Our IFA channel produces investment management revenues and client relationships here are managed by the third party IFA or intermediary.

Our business model gives us advantages and differentiates us. For example, traditional discretionary managers wouldn't have the distribution potential we enjoy from our own advisers. Similarly, traditional IFAs wouldn't have the revenue potential we enjoy from having our own investment and platform capabilities. Creating these features in a business is not easy. By definition it takes 5 years to build a 5 year investment track record, something we have long since passed in all our investment propositions. It takes time and significant investment to build a national adviser force of over 100, a presence in the third party IFA market and an investment team of some 65 people. It takes time to build a platform that can work for any client type coming through any channel. And finally it takes time to build a brand as strong as Close Brothers to wrap around all these services. All of this makes our model hard to replicate.

Our integrated model provides clear benefits for clients. We act simplistically as a one stop shop providing access to high quality professional advice and institutional quality investment management in a single solution through a direct relationship and single log-in. We offer choice and flexibility tailoring our offering to a client's individual needs and preferences, and we adapt to clients changing needs as they move from wealth accumulation and into retirement. And finally it represents good value, and we are increasingly offering a fee benefit to clients who take the full suite of services from us.

It also provides a number of benefits for us as a business. Firstly it increases our revenue potential because we can provide both advice and investment management to our direct clients, capturing a greater share of wallet. This allows us to achieve a revenue margin of around 130 basis points on our advised clients, including those who take up our investment management, compared to around 70 basis points for pure investment management with no advice. Secondly it increases the flow of assets into our highly scalable investment management capabilities. This complements our advice activity which is traditionally sticky but more difficult to leverage. Our direct client relationships are the most valuable with the highest revenue margin, the stickiest relationships and the least risk of disintermediation. They are also our greatest source of assets under management, inflows and revenues. However IFA sourced business is also important. It represents about 30% of our managed assets and in addition to its revenue generation it also provides a valuable external endorsement of our investment management capabilities.

Over the last 5 years our assets under management have grown by £4.2 billion reflecting the effectiveness of our multi-channel distribution. Excluding disposals, just under 70% of this growth has come from net inflows and just over 30% from market movement and investment performance. Our total client assets also include £1.8 billion of assets under advice on which we only earn an advice or platform fee. Subject to any future IFA acquisitions we might make, we expect this number to decline over time as clients migrate into our integrated proposition.

The last 5 years illustrate the good progress and performance of our core private client wealth business. We have typically generated net inflows between 6 and 10% and whilst this isn't an explicit target, we believe that this should be an achievable rate going forward supported by hires and small acquisitions. Last year we achieved an even higher rate of 12% and we estimate that around a third of these net inflows related to recent hires or migrations from recent acquisitions.

Operating margins have increased from 12 to 20% on the back of strong net inflows, positive markets and a gently rising revenue margin as the proportion of clients using our integrated proposition has increased.

Our business has strong operational leverage and we expect continued operating margin expansion as the business grows. However, the trajectory will depend on the level of investment we make to drive longer term growth. For example, our experience has shown that hiring advisers and investment managers increases the long-term growth potential in the business, but comes with initial costs which impact operating margin in the short term.

Top line revenue growth is the main driver of profits growth. And the most important element of revenue growth is delivering a great service to our existing clients. We enjoy consistently strong client satisfaction levels with a net promoter score of over 60 for example in our bespoke business, and at least 94% client satisfaction in both our adviser and high net worth business lines.

By focusing on existing clients we are able to both retain the vast majority of our revenue from year to year and also generate new assets and revenue by increasing share of wallet and gaining referrals. Our existing clients are typically our largest single source of new asset growth.

We also pursue a number of additional activities to grow our client base through organic lead generation. A good example is the employer market where we have a long-standing presence providing financial education seminars to employees as part of financial wellness programmes. We provide over 500 seminars a year through relationships with around 150 companies. And this generates around a third of our new client assets for our advisers. This channel is attractive given the implicit endorsement we receive from employers and the increasing importance of the workplace as a venue for wealth management.

We also attract new clients from an array of third party IFAs, from client relationships in Close Brothers Banking Division and via a host of private client intermediaries such as lawyers and accountants who recognise the value and quality of our offering for their clients.

Hiring advisers and investment managers who have the ability to build a client bank is a further element of our growth. Our strong brand and reputation have enabled us to hire a number of high calibre advisers and investment managers in recent years.

And lastly, acquiring high quality businesses that fit our model and culture can also accelerate growth. We have significant experience in this area having made 7 IFA acquisitions over the last 8 years and selective infill acquisitions remain part of our strategy as the industry consolidates.

In addition to top line growth, another key driver of profits is improving operating efficiency. Part of this is aimed at the front office with client segmentation and various productivity improvements that Andy and Nancy will talk about shortly.

The other main aspect however relates to technology. Technology is now an integral element of business strategy and client proposition and is a key driver of success in the wealth industry. And we have therefore made significant investments in recent years in our technology. The most recent phase of our technology plan was successfully implemented in the summer of 2017 when we introduced a common custody and investment management system across our entire business, and a common digital portal for all our clients. The benefits from this have been a significant cost reduction for the business and an improvement in client experience.

Next year we will be introducing a common client relationship management system across the business that is linked via straight-through processing to both the portal and the custody system. This will significantly enhance client experience in terms of digital functionality and processing times, and further improve efficiency through reduced data entry and greater levels of automation.

I would now like to hand over to Andy Cumming who will talk about our advice and integrated wealth capabilities. Andy.

Andy Cumming – Head of Advice, Asset Management
Thank you Martin. I am Andy Cumming, Head of Advice. I joined in 2011 when Close Brothers acquired the IFA Scott Moncrieff which I led. The reason why we sold to Close Brothers was because we believed in the strategy and the business model that Martin has just articulated. And we recognised the quality and breadth of the investment proposition which we knew would be beneficial to our clients.

Our integrated proposition is based on the fundamental premise that people need and are willing to pay for good financial advice. We believe that everyone needs a wealth management plan to be established early in life and delivered over many years. Our role is to provide and implement that plan for our clients. It is the means by which they will save enough to enjoy a good retirement, invest to achieve the best returns, ensure they have the right protections in place for unforeseen events, maximise tax opportunities through the optimal use of wrappers and structures, and structure their affairs to provide an inheritance for the next generation. This entails a huge amount of complexity and work in a constantly changing fiscal environment.

The value of a good wealth management plan established early in life is immense relative to its cost. Equally the opportunity cost of not having a plan can be very high and permanent.

When we talk about advice, we refer to a complete lifetime financial planning service incorporating pension and retirement planning, investment planning, estate and tax planning, protection and mortgage advice. Receiving personalised and expert advice tailored to their specific needs is critical to clients in creating a comprehensive wealth management plan and supporting their financial wellbeing. It underpins the value they place on the expertise of a financial adviser and on the trusted personal service built over the long-term relationship with a personalised adviser.

The appetite for advice in an increasingly complex financial market, coupled with the breadth and quality of the service we can offer them is of great benefit to Close Brothers in building sticky client relationships that last. And with the backing of an in-house institutional quality investment service, our clients benefit from the shared accountability and collegial expertise of our integrated offering.

We have designed our advice proposition to be completely client centric in that we offer choice, flexibility to cater for clients' individual needs and preferences. Clients can choose their preferred delivery method for advice, either face to face or by telephone or even using purely our online platform. Clients can also choose whether to have a full service, ongoing advice or an ad hoc service that they can dip in and dip out of. Importantly for our advisers where most clients opt for the Close Brothers proposition, we also offer the choice of third party solutions to our clients. And within the Close Brothers investment proposition, we again offer a high level of choice that Nancy will explain. And these maximise the likelihood of Close Brothers being able to meet our clients' needs.

Our online channel serves a number of purposes. It serves those clients who opt out of advice but still wish to use Close Brothers for investment management. In the longer term, it also enables us to leverage our existing digital channel to meet potential changes in client preferences and provide additional distribution of our investment capabilities.

What is distinctive about Close Brothers is the breadth and quality of the capabilities that we can provide to clients and the relationship and service approach that we take with them. We simplify life for our clients because they can access everything that they need through a single relationship. This relationship approach is underpinned by the culture of personal client service common across Close Brothers. Our clients can be confident that they have a relationship with an individual and a firm that puts their own interests firmly at heart.

As Martin mentioned earlier, our overriding priority is to provide great service and outcomes to our clients. Client and adviser segmentation are an important element of this. By segmenting our smaller clients to lower cost propositions such as telephone based advice or our digital portal, we have been able to increase the level of service to our most attractive clients. Adviser segmentation ensures that those advisers with strong new client acquisition skills have smaller client banks so that they can devote more of their time to new client development and management.

Growing our adviser numbers is important over the longer term. This is mainly done through hiring and acquisitions, but we have also developed our own Academy programme which helps move people from administration into para-planning and into full advice. In a competitive marketplace for advisers we are able to attract very high calibre advisers because they believe that we have a compelling combination of strategy, proposition, client service and brand.

Finally, increasing adviser productivity is critical to our economics. We do this through our technology by optimising our support resources in para-planning and client service to our more successful advisers and through adviser segmentation.

I will now hand over to Nancy who will talk about our investment management capabilities and how these deliver for our clients. Thank you.

Nancy Curtin – CIO Asset Management

Thank you Andy. By way of background, I have been at Close Brothers since 2010 as CIO and Head of Investments. My background has covered retail, institutional and private client investment management in a number of different asset classes on a global basis. My excitement about Close Brothers was the opportunity to bring institutional disciplines and a global orientation to a private client business with an ambitious growth plan.

Our overriding aim in investment management is to grow the wealth of our clients in real terms i.e. above inflation over the long-term and in line with their appetite and capacity for risk. The main benefit to clients from our approach is that we provide them with a total investment solution - multi-asset class, globally diversified and risk graded portfolios managed to institutional disciplines but tailored to their circumstances.

We deeply understand that investment portfolios are there to meet a wide variety of goals. From supporting lifestyle needs to day to day income needs, to supporting intergenerational wealth transfer. As you know, no two clients are alike, and so we have designed our investment solutions to provide the widest range of choice to meet the broadest range of client goals and objectives.

Because we focus on private clients, we also understand their mindset and that their objectives are long-term in nature. Most private clients have a finite pot of capital. And once they retire they may not have the chance to replenish it. We therefore aim to structure portfolios to preserve and grow wealth prudently in real terms taking a long-term investment horizon. To meet these long-term wealth needs we believe strongly in diversification, investing across a range of asset classes on a global basis to deliver optimal risk adjusted returns.

Our three building blocks for client portfolios are global equities, bonds and alternatives, the proportion of which is then tailored to client needs and circumstances. The benefits to us from our approach are that we are relatively insulated from the cyclicality of flows in specific asset classes and also changes in investor risk appetite. Our approach also has wide appeal to advisers and their clients.

Now we have one investment engine at Close Brothers because we believe strongly in applying institutional disciplines to private client investing. And this means that all of our clients benefit from the combined wisdom and expertise of over 65 investment professionals that form part of a collegial and centralised investment team. We have developed optimal strategic asset allocations for clients at different risk levels. Well that is the optimal mix of equities, bonds and alternatives to achieve a client's goals at a given level of risk.

We also have the expertise to make the tactical adjustments to enhance return or reduce risk in a current market environment. Our skills in these asset classes are to ensure our client portfolios can navigate through a range of both favourable and more stressful market conditions.

We have also made a substantial investment in global research in each of these asset classes with a team of 20 research professionals and considerable external budget to access insights globally. We combine the disciplines of asset allocation and research to create different investment choices so that we can meet the needs of as many different clients as possible. For example, we provide a range of risk rated portfolios from conservative through to growth. Clients can also choose the vehicle they desire, either our own funds or a separate account.

Finally, our clients can choose from three different investment styles with different features and price levels either directly invested our own expertise, multi-manager third party managers or passive. We firmly believe that our rigorous institutional quality investment approach which analyses the long-term drivers of performance is a real differentiator for our clients and endorsed by the consistent demand for our investment solutions from our own advisers, third party IFAs, our own direct client base and a host of private client intermediaries, lawyers and accountants that also serve as referrers.

Now assets under management, as you can see on this slide are well balanced across our investment propositions and are largely in our own funds and in our high net worth bespoke service. Our own fund range comprises of 14 funds each with at least a 5 year track record, some now approaching 10. With three different styles as I mentioned, direct, managed and passive. These funds are used by our own advisers as well as third party IFAs and have an AuM of £4.1 billion. Net inflows are very evenly spread across all three different styles in our fund range.

Our high net worth discretionary service called bespoke, also manages £4.0 billion in AuM with a track record of more than 10 years and it is distinguished by a high level of service, dedicated investment management, and the ability to further customise portfolios to client needs suitable for our larger and more complex clients. This service is delivered through 31 investment professionals in 7 teams in London, Manchester and Edinburgh providing good national coverage. And we have recently opened an office in Mayfair, convenient for clients.

We have also built a proprietary risk management system to enable us to monitor all of our funds and segregated portfolios on a daily basis. The system was designed by investment managers and an external compliance consultant recently described it as the best risk management system they had seen in the UK wealth management market.

Our investment team has a stimulating and collegial culture. This helps retain our talent and attract new talent as well. And we have recently made a number of new senior hires in our high net worth bespoke business.

But I think people like to join us for the culture of pragmatism, flexibility, innovation, combined with a strong discipline of putting the client first. But they also like the quality and depth of our investment resources combining in-house equity analysis, global research and first class risk management. We are continuing to invest in the intellectual capital of our team and adding more to research, enhancing risk management and developing new propositions such as our recently launched socially responsible service.

Finally, with our advisers we are continually working to improve the productivity of our investment managers by investing in technology and middle office support.

This chart shows our success in delivering our primary investment objectives, namely long-term positive real returns consistent with the investment goals set by our clients. We show here the annualised returns over 1,3 and 5 years by risk category for our different funds and also for our high net worth bespoke service. You can see the consistency of returns across our different propositions as well as the correlation between risk and return across the different risk grades.

We also have a strong track record of performance relative to the competition. And you can see on this chart, which shows the performance of our funds relative to the IA sector and the performance of our high net worth investment business relative to ARC - Asset Risk Consulting. All these performance figures are of course shown net of fees and charges.

So in summary, three features make our investment capability distinctive. First our high level of choice across risk level, investment style and vehicle to appeal to the widest possible range of clients and their advisers. Secondly, the application of institutional quality disciplines and a global orientation to private client management combined with the collegial culture supporting strong long-term performance.

And finally, ongoing investment in talent, new propositions and technology which enable our investment managers to deliver the best possible service, service to our clients.

Thank you, I will now hand back to Martin.

Martin Andrew – CEO Asset Management
Thank you Nancy. We continue to see significant structural growth opportunity in our market, proven by the performance of the business over the last 5 years. Economic and population growth, increasing levels of affluence and increasing life expectancy provide a positive long-term growth backdrop. And ever increasing complexity in financial markets and the ongoing trend towards

individuals taking responsibility for their income in retirement, provides structural growth and a strong demand for advice.

We anticipated a number of the key market trends when we embarked on our current strategy almost 10 years ago. The threat of fee compression was on the horizon and has since become increasingly prevalent through developments like the growth in passive investing. Concepts such as robo advice were beginning to appear and recent advances in technology have accelerated the growth of these sorts of alternative propositions.
And regulatory pressures following the advent of RDR have continued since, with recent FCA market studies and mifid 2.

Anticipating these trends has left us well placed to deal with this evolving landscape and each represents opportunities as well as challenges. As we have shown you today our vertically integrated model and our approach to distribution gives us financial advantages and strategic flexibility. Our propositions are client centric and offer flexibility and choice helping us to serve the needs of clients today and in the future. Our deep and strong relationships with clients are a core strength of the business and provide clear value to our clients.

We have already implemented significant technology enhancements and have a clear plan in place for further developments delivering both efficiency and optionality in the online space. Our experience demonstrates the clients value and are willing to pay for high quality advice. And our brand resonates strongly with new clients and with potential new advisers and investment managers.

The UK wealth management marketplace remains an attractive place to be with a number of social and economic factors providing ongoing structural growth. Consequently, whilst the wealth management marketplace is competitive we have shown that through the quality of our proposition, our distribution capabilities, strong brand and proven ability to acquire and hire, we can be one of the successful players in this market longer term.

Thank you and now we would be happy to take any questions you may have. We would be grateful as usual if you could please state your name and the organisation you represent.

Question and Answer Session

Question 1 : Portia Patel, Canaccord

Portia Patel from Canaccord. I appreciate you are not giving any financial guidance today, but can you just remind us in terms of the progression of the operating margin where it has got to and over the next 5 years what a realistic target might be for the operating margin and commensurate level of AuM?

Answer: Martin Andrew

So I would go back to some of the things that we said in the presentation. We are in an industry where most of our listed competitors have an operating margin between 20 and 30%, an average of around 25%. We have improved our own operating margin from 12 up to 20% which we think is a very credible level of operating margin now for the business given its scale and its recent growth track record over the last 5 years. All other things being equal, that operating margin will continue to rise as the business adds scale because of the inherent operational leverage in the business. And we have always taken the long term view to investing in the business and that is what we will continue to do. So if we see opportunities to create greater long-term growth through greater investment for example in hiring, we are prepared to take some short-term flex and trade-off in operating margin for the benefit of long-term growth.

Question 2 : Martin Williams, KBW

Hi, Martin Williams, KBW. Two questions. Could you give us some guidance on how we should forward forecast your AUM in relation to the underlying assets that you hold?

And secondly perhaps you could describe why Close Brothers is a good owner of this business?

Answer: Martin Andrew

So the last one I think I will ask Preben to comment on. The first one, so guidance on assets under management based on the underlying assets. I think you are referring to the underlying asset allocation within the business as it were. Broadly we would say that our assets, the movement of our assets correlate with about 0.8 to the FTSE, probably a better representative mix of assets is the PIMFA balanced index. So the movement in that is probably a reasonably good proxy for the way our assets move in line with markets.

In terms of how our assets will grow, as I have said, we have maintained a 6-10% net inflow rate over the last 5 years. You know we see no reason why we can’t expect to continue to deliver that in the future supported by hiring and acquisitions. You could put your own estimate of market movement on top of that to get an overall view of what you think the overall assets under management growth would be.

Answer: Preben Prebensen

In terms of the second question, why we are a good owner of the business. Well you have heard a lot of reasons why this is a good business. We looked at the long-term potential of the business many years ago now and have invested in it accordingly. We still see really good growth in the business. We see it resonating extremely well with the brand. So that is what we get in terms of feedback all the time. We like the structural growth opportunity and we think we've come up with a really good model. So we think it is a great fit for the group and we are delighted to continue to invest in it.

Question 3 : Luke Ahern, Investec
Luke from Investec. I have just got a quick question on whether you think the industry faces an issue with QE low returns and relatively old people being encouraged to take too many equities as a percentage of their overall mix in terms of risk allocation? And do you think there is a structural industry issue with too many people that are too old and their lives having too much risk as they search for returns in their low return world? Might that come and haunt the Wealth Management Industry when people lose money?

Answer: Martin Andrew
I think I will probably ask Nancy to see if she wants to comment on that?

Answer: Nancy Curtin
I mean it's a challenge right, because correlations between stocks and bonds are also increasing and so they are providing less of the diversification benefit than perhaps we have had in the past.

So what we aim to do is that we do flex the asset allocations. So there are lots of ways you can reduce risk in a portfolio that has risk in terms of the types of stocks that you own and lowering. In terms of the duration of the fixed income portfolio, keeping that very short. And in terms of using alternatives that can provide some income and some diversification benefits. And we try to use all three of those tools to try to provide the appropriate asset allocation for clients and then flex those in different market conditions.

And of course because we have clients at the very low end and conservative and balanced and growth. In each of those we have been very clear about the fact that what their allocation to risk assets will be. And therefore what they could achieve looking forward in terms of return over the next 5-10 years.

So you know it is going to be a more challenging environment, but I think the key is transparency, but also using our asset allocation and research skills to find interesting investments that can navigate through some of the difficult times.

Martin Andrew
Thanks Nancy. I think, just to pick up on what Nancy said, 70% of our assets are in direct relationships that we have with our clients, either through an adviser or an investment manager. And it is the role of that person to address some of these issues that Nancy has just been talking about that you raised as well.

Question 4 : Jason Napier, UBS

Thank you. It's Jason Napier from UBS. Two just. I mean who knows what asset classes are going to do next year, but I wonder whether you might give us a sense as to what revenues and costs might do if the index that you sighted was say up or down 10% maybe in both directions if you could give us a sense as to how much flex there is in revenues and costs for the business in those two scenarios? Thanks.

Answer: Martin Andrew

So what I can do is tell you roughly what happens, the sensitivity of that AOP to asset movements, right. So for every 1% movement in our assets under management, roughly translate to about a £600,000 movement in our AOP, adjusted operating profit. And with relatively modest market movements that is going to be the same up and down. But obviously the larger the market movement down, because we've got quite a high fixed cost base, that is going to ultimately hit profits more rapidly. So then you would have to understand obviously market movements have to move more than 1% to get a 1% movement on ours, that is what we were just talking about before.

Further question

And then secondly just on assets under management in terms of the net inflows. Can you give us a sense as to how much of that is due to changes in client numbers and is there an endowment affect, a sort of standard inflow for the client base and how they might behave again?

Answer: Martin Andrew

So the largest single source of new net inflow assets is our existing client bank. And that breaks down into more money that they are giving us and referrals and introductions from them. So it is directly from them or indirectly from them. So I can't give you a breakdown in terms of client numbers on that side. All of our other introductions through our employer channel, relationships with Close Brothers Group, the third party IFA channel, is in the main net new client growth. I can't break that down in terms of client numbers though.

Question 5 : Ian White, Autonomous Research

Hi it's Ian White here from Autonomous Research. Just one from me please. Just thinking about your existing offering and the geographies in which you operate, what do you consider to be the main gaps or investment opportunities for you? And again I am thinking in terms that this could be new distribution channels. New geographies, just whatever your thoughts are really?

Answer: Martin Andrew

So most of the growth opportunities are in channels we are already in and places we are already in. So there isn't really an obvious gap that we have that we would love to fill in either a geography or a client channel. We would like to be bigger in pretty much everywhere. In terms of geography, relatively speaking, we are probably underweight relative to where we would like to be in the midlands and the North West. But that is all on a relative basis.

Ian White
Okay, thanks.

Martin Andrew
Any more questions or is that it? Okay. Well thank you very much. Do stay behind for a drink if you would like. We will be here. We will stay behind for a drink and answer any further questions if you may have them. So thank you very much.

End of Presentation