Close Brothers Group
Asset Management Division
Presentation to Investors and Analysts – 22 April 2009
Script

Good afternoon everyone and thank you Jonathan.

Slide 5

Our objectives today are to explain the Asset Management Division in more detail and to highlight our emerging plans for the future.

To understand the Division today, it is helpful to understand its history and evolution.

The Division has been developed over 20 plus years primarily through a series of acquisitions and start-ups which were encouraged to operate and grow independently from one another.

This approach led to a diverse business in terms of its capabilities and one which generated significant profit growth up to 2007. Since 2007 profits have declined as a result of lower performance fees and investment income (principally relating to private equity) and more recently as a result of market falls.

However, the diverse approach also created a business which was complex to manage and one which was increasingly difficult for clients and intermediaries to understand and navigate.

More recently, therefore, the Division has been increasing its focus on its areas of greatest strength and restructuring to improve efficiency and simplicity.

Slide 6

The Division's history can be regarded as having four broad phases.

In the first phase a number of specialist investment businesses were funded as start-ups, often with minority stakes for key employees.

The second phase added significant scale and scope through a series of acquisitions. Of note, Rea Brothers brought high net worth asset management, banking and administration and Nelson brought further UK private client capabilities in the mass affluent space. By this stage in the Division's history, none of these acquisitions had been integrated.

This began to change in the third phase, when an integration program began across the UK offshore businesses, and the broad groupings of Private Clients and Funds were derived from a number of previously autonomous businesses. A number of minority interests were also acquired during this period.

The Division is now in the fourth phase where we are increasing the focus around three areas of strength (UK private clients, a range of specialist funds and investment propositions and our banking and administration capabilities). Finally, during this phase our private equity and VCT businesses were deconsolidated.

Slide 7

This is a diagrammatic representation of the Division which I will use throughout the presentation.

Our overall goal is to retain the broad spread of businesses because of their individual characteristics and opportunities and because of the diversification that they collectively provide.

However, we aim to increase the amount of focus, management time and resource on our core business areas. What this typically means in practice is proposition development, upgrading distribution and increasing growth potential for existing products and services by ensuring all of our distribution teams to have access to a broad range of propositions, rather than just a limited number, which had been the case historically.

We are also simplifying the underlying structure of the business and looking at IT and operations as functions across the Division so that we can identify ways to reduce costs and increase quality or functionality.

Our Private Clients business comprises wealth and discretionary investment management for UK private clients. The main feature of this business is that we have a long-term relationship directly with our clients within which we provide a holistic service rather than a specific asset management product. Our clients would regard us as one of, or potentially their main, trusted adviser.

Our Funds business comprises a range of specialist investment management capabilities, many of which are wrapped within funds but some of which are not. For all of them, however, the main feature is that we tend not to have a relationship directly with a client, but rather tend to distribute through some kind of intermediary and our clients therefore range from retail through to institutional. Typically our clients would regard us as a product provider rather than one of their trusted advisers.

Our Banking and Administration businesses are based in Jersey, Guernsey, the Isle of Man and Cayman and provide trust and fund administration services as well as deposit banking. They are a significant part of the Division and offer valuable stability and diversification.

Slide 8

The whole Division had £6.9bn FuM and circa £24bn AuA as at the end of January 2009. Total headcount was 803 of which just under half are in our Banking and Administration business.

The revenue breakdown between FuM and AuA is exactly what we reported in our recent interims.

However, here we are providing some additional information on headcount breakdown between Private Clients, Funds and Banking and Administration.

It is worth noting that our Private Clients headcount at 277 is proportionately higher than some of our peers because of our mass affluent business and our large volume of smaller accounts. However, I would stress that this business is structured to manage the large volumes of accounts in an efficient manner. The business is based in Cheshire, with a lower cost than London, and a proprietary IT system enables a small team of fund managers to manage large volumes of accounts efficiently according to strictly applied models.

It is also worth noting the headcount in our banking and administration businesses of 384. This reflects the large volume of administration work required to support these businesses.

Finally, I would also note the positive net new funds results of the Private Clients business, in contrast with the negative net new funds from the Funds business, in the first half of our 2009 financial year. Our Private Clients net new funds figure includes results from offshore and Cayman. Excluding those elements, the pure UK private client business has performed even better and has had a particularly strong first half, with net sales annualising at 9% of opening FuM.

Slide 9

This slide illustrates the Division's income history since 2005 and splits out the three elements of income – management fees on FuM at the bottom, income from AuA and deposits in the middle and finally performance fees and investment income at the top.

The slide illustrates the growth in performance fees and investment income up to the high point in 2007, and the recent decline which was largely the result of a decline in private equity related gains and investment income following the strong year in 2007.

Income from management fees on FuM and from AuA and deposits was relatively stable up to 2008, and indeed the decline in total income from 2007 to 2008 was almost entirely due to the reduction in performance fees and investment income.

Moving into 2009, at the interim stage, management fees on FuM declined because of a market-driven reduction in FuM and because of a reduction in revenue margin caused by product and business mix changes. As can be seen in the Appendix on page 37, good relative performance in our Private Clients businesses helped to mitigate the reduction in FuM caused by market declines.

Also in 2009 you can see the continued trend in the decline in performance fees and investment income as a contributor to total income.

Slide 10

This slide looks over the same time period but adds expenses and profits alongside operating income. Looking back over the last 5 years one can see the initial drop in revenue from 2007 to 2008 caused by the decline in performance fees and investment income, followed by the market-related decline in revenues moving into 2009.

One can also see the progress we have made in reducing the cost base, through reductions in headcount and variable compensation and the deconsolidation of private equity and Close Ventures. Whilst these reductions have not offset the decline in revenue, they have nonetheless been significant.

Slide 11

In aggregate over the same time period our FuM increased by 25% to £6.9bn. The main positive contributors to FuM growth have been acquisitions of businesses (such as Fortune and Multi-Manager) and positive net new funds of £800m in our Private Clients business, comprising new teams and pure organic growth. Our Funds business contributed zero net new funds over this period, the net result of some significant sales of closed end funds offset by some significant maturities and realisations in closed end funds and property. Discontinued or deconsolidated businesses accounted for a decline in FuM of £1.2bn. This primarily comprises Private Equity, Close Ventures and our Finsbury investment trust business.

It is worth noting that over this time period, the net impact of market movement and investment performance on our FuM was zero, reflecting both our diversified asset mix and the impact of our asset allocation decisions. This can be compared to a decline of 6% in the FTSE 100 index over the same period.

Slide 12

This slide splits the FuM movement between the Private Clients and Funds businesses.

The Funds business grew more quickly as a result of acquisitions and closed-end launches. However, it has also been more affected recently by deconsolidations, maturities and realisations.

The Private Clients business has been more stable in terms of FuM and has held up well on the back of positive net sales and a defensive investment stance into the recent market declines. For example, from the end of FY 2007 through to the end of H1 2009, excluding the impact of net new funds, our Private Clients FuM declined by 13.4%. This compares to a decline in the FTSE 100 index over the same period of 34.8%.

Slide 13

We recently reported a decline in revenue margin from 88bps in H1 2008 to 78 bps for H1 2009. This slide aims to illustrate the causes of this reduction.

Looking at the FuM mix from H1 2008 to H1 2009, I would note four areas of change which have contributed to the decline in revenue margin.

First we deconsolidated the private equity and Close Ventures businesses during the period.

Second, although the proportion accounted for by our hedge fund business has increased, we experienced a decline in revenue margin in that business as flows switched from higher margin funds-of-funds to lower margin advisory mandates.

Third, the proportion in fixed income and cash has increased reflecting both our own asset allocation changes and investor appetite across our funds.

Finally the proportion in equities has correspondingly decreased, also reflecting both our own asset allocation changes and investor appetite across our funds.

All of these factors together, to different degrees, have contributed to the overall decline in revenue margin.

Slide 14

Having provided a brief overview of the Division, I would now like to turn to what we are doing within the core business areas.

Slide 15

First of all, across both the Private Clients and Funds areas we are continuing with the theme of integration that we have followed for the last few years. This is not just for operational efficiency reasons, but it is also to unlock new growth by providing greater access to our capabilities for our distribution teams.

In terms of target markets, our primary focus is on the individual investor because of the long term attractive growth prospects, and because of our good branding fit with that market. We feel that the recent market environment has if anything improved our relative brand strength in the private client market.

To access this market we will retain our dual channel distribution approach. In other words, we will retain and expand our own direct, private client acquisition capability and at the same time we will also market via IFAs. I will expand more on this later in the presentation.

In addition to the individual investor market, however, we do see selective opportunities for institutional and international distribution.

In terms of investment propositions, our primary focus will be around broad, multi-asset "Managed Solutions" where we see continued private client demand and increased demand from intermediaries such as IFAs.

By Managed Solutions we mean a range of discretionary, multi-asset, total portfolio solutions delivered to private clients either in a collective, or a segregated portfolio ranging from a highly modelled format to a customised bespoke portfolio. These solutions will be configured to be incorporated into a variety of client-wrappers (such as ISAs, SIPPs and insurance bonds) in order to maximise their distribution potential. Elements of the proposition will also be configured for use on administration and life company platforms thereby increasing their appeal to IFAs.

Being a multi-asset, total portfolio service, Managed Solutions should have longer persistency than individual products and should be less sensitive to investment performance both for winning new business and retaining existing business.

In addition to Managed Solutions we will continue with our specialist capabilities and may add to this range where we see we have competitive strength and an ability to distribute. We regard the specialist capabilities as augmenting our Managed Solutions focus.

Slide 16

Our current private client capabilities comprise two models – bespoke HNW and modelled mass affluent.

Our bespoke HNW business offers a traditional private client discretionary service. The proposition to clients includes a direct relationship with a specific portfolio manager and a customised portfolio. This area has FuM of £1.8bn (including our Jersey business and the collectives in that business) and around 2,000 clients. The business grew significantly in 2006/7 with the recruitment of two teams from Singer and Friedlander. Revenue margin is around 90bps and comprises management fees, dealing commission and interest turn. The business has 73 people, of whom almost half are client-facing portfolio managers, and operates from 3 locations, London, Manchester and Jersey. Growth has been good and has come primarily from referrals from existing clients and their advisers.

Our mass affluent business has FuM of £1.3bn but has around 20,000 clients. The proposition to clients includes a dedicated relationship manager who provides generic investment advice, access to regulated financial planning advice and a segregated portfolio. On account of the large volume of small accounts, the business is highly segmented and investment management is models-based. The revenue margin of circa 140bps includes an element of front-end charge, as well as management fees, dealing commission and interest turn. A proprietary IT system enables the small investment team of 6 people to manage over 60,000 directly-invested portfolios. The business has 32 relationship managers and 23 relationship assistants who purely service clients. Total headcount is 204, reflecting the administration required for the large volumes of accounts and the development of our proprietary IT system. The business is based in Cheshire and Stirling and the investment team is based in London. Distribution has been focused on the employer market, where we believe we are one of the market leaders, and direct mail.

Slide 17

We regard our Private Clients business as an asset and a strength on which we can build.

Our HNW business has produced good performance in the recent downturn. It has generated good net sales performance on a consistent basis and has benefited more recently from the arrival of additional portfolio managers and the installation of a new IT system, Pulse. However, we have not yet applied a scalable distribution activity to this proposition and we have not yet offered our financial planning advice to this client base on any scale.

Our mass affluent business has also produced good performance in the recent downturn. It is highly scalable and has a significant distribution function and a financial planning capability. It also has the advantage of a low-cost location. Historically the distribution activity has been primarily focused on employers, which in turn has resulted in a small average account size. To date the business has not targeted other distribution channels such as IFAs or professional intermediaries.

Slide 18

Our goal therefore is to build on the strengths of our existing private client businesses and address some of the historic weaknesses.

We are basing our plans firmly on the fundamental changes that we believe will happen in the wealth management market. We believe that the Retail Distribution Review, Treating Customers Fairly and likely IFA consolidation will drive significant structural and behaviour change in the market over the next 3-5 years and we are aligning our business to the opportunities we believe this will offer.

In particular we expect that IFAs will increasingly look to a discretionary service and will increasingly look to outsource this to professional investment managers.

We intend to operate a dual channel distribution approach for our Managed Solutions – both through IFAs and direct to private clients through our own wealth management sales force. We believe that over time there may be opportunities to acquire books of business from IFAs wishing to exit the business and to do so we will need our own wealth management business to pick up the client relationships.

To address these opportunities we are making a number of changes.

We are placing significant emphasis on taking our full range of discretionary propositions to the IFA market. We have recruited new sales leadership for this channel and we are leveraging the existing IFA sales team that our Funds business already had.

We intend to move our own direct client acquisition activities further up-market to target wealthier clients and over time broaden our channel coverage to include professional intermediaries, such as lawyers and accountants.

We believe that financial planning advice will become a more important component of our own wealth management proposition as we seek to move further up-market and we also have an opportunity to offer financial planning advice to our current HNW client base by leveraging the financial planning expertise from the mass affluent business.

Slide 19

This diagram illustrates the business model we are working towards. We are targeting a range of clients in the mid market through two channels – our own wealth management business (the blue channel), and through third party wealth management businesses, namely IFAs (the green channel).

The Managed Investment Solutions that we offer will be the same across both channels and will range from simple modelled portfolios through to bespoke portfolios. The same investment organisation will manage the investment propositions, regardless of channel and regardless of whether they are modelled or bespoke. We believe in having strong investment consistency across our range of investment solutions.

Financial planning will be an important component of our own wealth management proposition (the blue boxes), but will not be part of the proposition to IFAs (the green boxes).

As mentioned, we believe that there may be opportunities to acquire books of business from some IFAs over time and essentially migrate their business with us from the green boxes to the blue boxes.

It is important that we do not directly compete with, or are seen to directly compete with, our IFA partners. To that end we would effectively put an internal Chinese wall between our own wealth management activities and those clients referred to us by IFAs. To support this Chinese wall we will have separate distribution teams serving the direct market and the IFA market.

Slide 20

I would now like to turn to the Funds area.

Here we have a diverse range of specialist capabilities. Whilst each of these businesses is relatively small, and some of them are currently facing difficult conditions, they are of high quality and represent optionality for us in terms of growth opportunities as and when conditions improve.

In addition, a number of these capabilities are highly scalable, could work together to offer new propositions and could be used to strengthen our Managed Solutions in our Private Clients business. Multi-Manager, Fortune, Property and our derivatives capability are all relevant in this regard.

In the manager research and multi-manager space we have a long-only capability which primarily serves the small-mid sized UK institutional pension market and also retail distributors. We also have, via Fortune, a similar capability specialising in the hedge fund arena. Both Multi-Manager and Fortune represent some of our strongest institutional capabilities and Fortune has the strongest international distribution capability in the Division. Revenue margins for their advisory business tend to be at typical institutional levels.

Our property business has a wide range of residential and commercial property funds and our own fund-of-funds which have typically been promoted via IFAs to the high-end retail market. Revenue margins have been correspondingly quite high. This area employs a relatively large number of people which reflects the administration associated with the wide range of funds and tax mitigation structures in the business.

Our structured and derivatives team manages the Escalator funds which are open-ended protected equity funds. They have also designed and launched a number of closed-end structured products with defined risk-return characteristics over a set time period (usually 3-5 years) in a specific asset class. Revenue margins in these products have been relatively good.

OLIM is a boutique investment management business investing in commercial property and UK equities on behalf of UK institutional clients and charities.

Slide 21

Across our Funds business we have strengths in manager research and selection in the long-only and hedge fund space and our derivatives expertise is of proven quality.

We have relatively small scale in these areas but feel that has not undermined the credibility of the businesses or their propositions.

The operating environment in property is extremely difficult given that many of our open ended funds are suspended and those with leverage necessitate ongoing negotiations with banks over covenant breaches. A significant element of the property business is likely to be in work-out over the medium term as a result.

In addition, whilst Fortune has successfully avoided exposure to Madoff, the fall-out from that situation has adversely affected the outlook for funds-of-hedge funds. As a consequence we are focusing on our skills in managed accounts and advisory work although revenue margins in both areas are lower than traditional funds-of-funds.

Our broad opportunities across the Funds business lie in exploiting opportunities for growth in these different areas as and when they arise. There are some interesting consolidation opportunities in the hedge fund-of-fund space and we are seeking growth in advisory and managed accounts.

We will also explore ways to leverage some of these specialist capabilities into our Managed Solutions propositions for Private Clients.

Slide 22

Our activities to date have centred on defining our strategy and putting in place the organisation to deliver it.

We now have an integrated sales and marketing structure covering the whole Division.

Stuart Dyer was appointed to a new and critical role heading up distribution in the UK for the integrated Asset Management business, covering all propositions and channels. This is the first time we have had someone with a mandate to manage distribution resource allocation across the whole business and to ensure that all relevant propositions are made available in all relevant channels.

Stuart has recruited new sales leaders for both the direct and intermediary channels and a new direct mail pilot is planned for May. This pilot will test a change in format for our direct marketing and is part of our plans to increase the average size of new business through our direct sales force.

We have also created a new investment organisation which brings together investment professionals from across the Division under two new leadership roles – a Chief Investment Officer and an Investment Director. Both of these roles were filled internally, the CIO being Mark Bray and the Investment Director Adrian Swales.

In line with the themes of integration, simplification and efficiency we have now moved all UK employees into one single company and on 1 May we will be integrating a number of legal entities so that we end up with a single principal regulated entity in the UK. Importantly, in order to simplify the business to the outside world, that will also enable us to move to a single brand at the same time – Close Asset Management.

Slide 23

I now turn to the Banking and Administration businesses.

Slide 24

Firstly I will describe our UK offshore businesses in Jersey, Guernsey and the Isle of Man.

Our banking capability is a genuine transactional capability but offering a simple set of services including deposits, FX and debit cards. The bank receives business from the Trust, Asset Management and Fund Administration businesses and therefore represents an attractive king pin to our overall offshore business. The typical client is a mid net worth UK expatriate with conservative needs and a desire for personal service from a reputable organisation. We also service corporates. Revenues in the bank are derived from net interest margin and transaction fees, most notably for FX transactions.

Our Trust administration business is predominantly private client and wrapper focussed, but also provides corporate services. An example of a wrapper is the Qualifying Recognised Overseas Pension Scheme (QROPS for short) which is a scheme recognised by HMRC but designed for UK expatriates who wish to have an international scheme into which they can transfer historic UK pension benefits and enjoy various financial planning advantages. We have a QROPS scheme in Guernsey. Revenues in the trust business are a mix of time based charges, fixed fees and ad valorem fees.

Our Fund Administration business primarily serves institutional funds in the property, hedge fund and private equity arenas. We offer the usual range of services including accounting, fund pricing and undertaking transfer agency. Revenues are a mix of ad valorem fees and special fees relating to specific projects.

The most significant development in our Fund Administration business has been the setting up of an administration capability in Cape Town in South Africa. This was a conscious move on our part to create greater capacity, reduce unit costs and create an operating model to best practice standards from a clean sheet of paper. We chose South Africa because of the best combination of time zone, labour costs, availability of qualified staff and an English speaking community. Out of the total of 100 people, we now have 51 people in South Africa and we are pleased with the success of the team there and the amount of work we have been able to migrate from Guernsey. We believe we now have a competitive advantage in this market because of this initiative.

Slide 25

The UK offshore business has been a solid and stable business for us. There are some useful links between the businesses and helpful revenue diversity, which has been evident in the current market downturn. There is significant operational gearing in the bank and we believe we have an advantage with our South African administration hub.

The potential headwinds for this business include uncertainty about the impact of any global move against so-called offshore centres. In addition the current environment for our fund administration business is made difficult because of the issues facing property, hedge and private equity funds in general. Lower interest rates have impacted upon our net interest margins, and the trust businesses, although stable so far, are relatively difficult to grow and are not as scalable as the bank or our asset management activities.

Opportunities do exist around “QROPS” where we feel we are one of the market leaders and where we are seeing good growth potential in this current market. Our fund administration business offers the opportunity to leverage our South African administration hub.

Slide 26

Cayman is similar to our UK offshore businesses but is more institutionally focussed. It has a smaller deposit book but Trust and Fund AuA are similar to the UK offshore business. It offers the same core services and has demonstrated a good growth record both organically and by acquisition.

Slide 27

The advantages of and challenges for Cayman are similar to the UK offshore business. The business has a greater overall exposure to the hedge fund industry. In terms of opportunities we are seeing signs of interest again from the hedge fund community and we are seeing good growth prospects from Latin America.

Slide 28

I would now like to explain our activities aimed at improving our operational efficiency.

Slide 29

We are working to improve our operating efficiency across the Division.

This is not just about cutting current costs per se. It is as much about improving scalability, quality and functionality (for example in operational processes and IT systems) and reducing complexity.

Improving our operating efficiency is a wide ranging and long-term initiative. We have established a Change Management capability, which covers project management, business process design and IT implementation so that we can prioritise and execute specific projects in a disciplined and consistent way. This resource is being applied to a range of projects from strategic to tactical.

Some examples of efficiency improvements include the previously announced headcount reductions we made at the end of last year and again in the first half of 2009. In aggregate these result in a reduction in divisional headcount of 80, or around 10%, and an £8 million reduction in annualised cost savings.

We have consolidated supplier management for all our marketing and stationery supplies, creating an immediate cost saving.

Moving to a single brand and legal entity will simplify the business and remove unnecessary costs.

We are implementing a single dealing desk for the Division which will increase service quality, reduce commission pay-away and standardise procedures across the Division.

We are increasing the use of our core private client investment management system (Pulse) so that we can simplify the business, introduce standard operating procedures, offer consistent reporting packages to all our clients and increase fund manager productivity.

We are also evaluating how we can use the different locations we have, such as Cheshire, to see if some activities could be moved to a lower cost location.

Slide 30

Before we move to the Q&A session I will close with a summary.

Slide 31

I hope that I have been able to convey the three core areas of the Division and the interesting blend of growth, stability and diversification that they represent.

Our Private Clients business is in a strong position with our current scale, business models and brand position. We are aligning our business directly to some significant changes that we foresee in the wealth management market over the next few years and we are working hard to benefit from them. Whilst difficult to predict, we also believe that there may be interesting non-organic opportunities which could accelerate our development.

Our Funds business contains some high-quality teams with different positions on their respective business cycles. We will focus hard on exploiting new opportunities for growth as and when they materialise and the resulting operational gearing in these businesses.

Finally our Banking and Administration business offers real resilience and diversification benefits, especially in current market conditions. These businesses also have a number of interesting and specific growth opportunities.

That completes my presentation.

I will now hand back to Jonathan and we will be happy to take questions. I will also invite some of my colleagues to answer questions that may be pertinent to their area.

Thank you.