Close Brothers Group

Wednesday 4th May 2011

Investor Presentation: Asset Management Division

Preben Prebensen: Chief Executive

Steven Mendel: Head of Wealth Management

Nancy Curtin: Chief Investment Officer

Martin Andrew: Chief Executive

Preben Prebensen

Good afternoon I think we're all set to get started so let me start by welcoming you all here today. In 2008 we embarked on the first of a series of educational seminars on each of our divisions. The purpose of these is to give you a detailed insight in to our businesses and for you to hear directly from the teams running each of our divisions. Today our focus is on asset management and we'll talk to you in detail about our plans for the private clients' business; our client proposition and its roll out and we hope that this will leave you with a clear understanding of what we're building as well as the progress we've already made and why we believe the business will be successful.

As you know in these seminars we don't give financial forecasts but today we will clearly set out our medium term priorities and give you an indication of some of the key metrics and performance levels we're aiming for.

Close Brothers Asset Management Division has strong attributes in terms of our people, our experience, our existing client base, our investment management capabilities and indeed our brand. We see a significant opportunity to build on these to create a leading UK wealth and asset management business and as a result the business is currently in a period of transformation and investment.

We've developed a robust strategy which we're now in the process of executing and you'll hear about this in detail today. We firmly believe that this business has the potential to make a material contribution to group profits.

You'll already have noted considerable activity in this division in the last few months. The division today is very different from the disparate collection of businesses it comprised back in 2009. As I mentioned the division is still undergoing a transformation but already it is more focused both in terms of offering and geographic footprint. Since September we've sold three non-core businesses, property funds, UK offshore and Cayman and we've acquired

Allenbridge, an execution only broker; Chartwell, an IFA business; and made a recommended offer for Cavanagh, an AIM-listed IFA.

With much of the restructuring behind us we'll focus on rolling out our proposition, continuing to add to our client base and increasing funds under management. The senior management team in Asset Management has been significantly strengthened over the past two years and you'll meet a number of them here today. The presentation will be led by Martin Andrew, Chief Executive of the Asset Management Division. Also presenting are Steven Mendel, Head of Wealth Management, and Nancy Curtin, Chief Investment Officer.

I'm personally very excited by the potential of this business. It's operating in an external environment that's undergoing a considerable amount of change, driven predominantly by the regulatory environment and in particular the Retail Distribution Review. We think there's a real opportunity for us to build on our existing client base and skills to offer a compelling and flexible product offering and ultimately to increase revenues and profits.

As usual we'll be happy to take any questions after the presentation and both Jonathan Howell and I are available along with the Asset Management team to take these. We'll also look forward to the opportunity to chat more informally over a drink after the presentation but now I'll hand over to Martin.

Martin Andrew

Thank you Preben and good afternoon everyone. I'll begin our presentation by explaining our strategy, progress to date, and where we are in the overall process of transformation. Steven Mendel will explain our propositions and distribution and Nancy Curtin will cover our discretionary investment capabilities. I'll then talk about the financial implications of our plans and summarise at the end.

But first of all I want to talk about the vision for the business. We have a clear vision of what we want the business to be once we have completed the current transformation process. We aim to be one of the leading players in an emerging new model of private client businesses in the UK.

As you know at 31st January 2011 our Asset Management division had £8.3 billion of funds under management. Since the period end we have made a number of acquisitions and disposals and adjusting for these total funds under management would be around £9.6 billion of which £6.4 billion is private clients, as you can see in the reconciliation slide in the appendix to this presentation. This demonstrates a transition in line with our focus on private clients.

In order to meet a market opportunity we have identified our new model combines the best attributes typically found in different industry players, be they IFAs, discretionary wealth managers or execution only firms. Our new model will provide the core capabilities of advice, investment management and an efficient platform all in one business.

It will be a business that puts the client at the centre of their affairs with a full view of their financial assets, in complete control over the mix of services they want from us and in complete control of what they spend on fees and charges and therefore, most importantly, how they perceive their own value for money.

It will be a business designed to generate enduring, profitable, growth. It will have a nationwide presence, broad based distribution and a strong, trusted brand.

Whilst leading players are already changing their models, in a fragmented UK market we believe this vision is differentiated. From our own market research we are also confident that it will be attractive to clients.

Having explained our vision I now want to turn to external trends which we think are generating growth opportunities in the market.

The external market offers great opportunities through changes in regulation, demographics and technology. The FSA's Retail Distribution Review, which we support, has been extensively trailed as a driver of major change in the distribution of financial services. We're positioning ourselves to benefit from the change in three main ways. First we expect an increase in consolidation in the IFA sector which offers rare opportunities to gain scale in advisers and clients. Second we expect IFAs increasingly to outsource their investment process to a number of discretionary firms and we have positioned ourselves firmly in this space. Finally we expect increased demand for alternative advice services as IFAs generally focus on their larger clients. Our plans for our web portal and telephone based advice are aimed directly at this opportunity.

There's a structural trend towards individuals taking on both the responsibility and risk of retirement provision. This is most evident in the rapid shift in pension provision from defined benefit to defined contribution which is increasing the level of engagement in financial services by private individuals. Our range of propositions and strong position in the employer channel are designed to benefit from this trend.

Finally broadband and platform technology continue to transform investor behaviour and the financial services landscape. In particular clients value the ability to consolidate and aggregate their assets for ease of management and understanding and the latest technology affords both clients and financial services firms with significant gains in efficiency. Our internet portal is designed to exploit these advantages with leading edge technology.

I'll now explain our strategy, how we'll deliver the vision and exploit these external market trends. We have established a differentiated strategy that builds on our existing strengths and capabilities. This slide shows our strategy and business model. We will focus our asset gathering in the UK. Within the UK we will target a range of private clients from affluent through to high net worth and institutional clients such as charities, endowments and family offices, building on existing relationships and capabilities within our business.

We already service this wide range of clients and we regard this as a competitive advantage. For example, we find that intermediaries value our ability to cater for all client sizes not just their larger ones. We also want to attract clients earlier in their lives, even if they may have smaller amounts to invest and then enable them to stay with Close Brothers as they grow their assets. Growth in assets per client is a key component of future growth.

We have a number of distribution channels through which we find new clients. As today we will target more than one distribution channel to maximise our growth prospects and to optimise trade offs between volume and margin.

Our propositions are specifically designed to meet the needs of both advice seeking and execution only clients and the large number of people who have a foot in both camps. Clients will be empowered to choose the mix they want between advice and execution only. These propositions have tested positively in our market research and we believe they will differentiate Close Brothers.

Our multi-asset discretionary investment capabilities support all our clients. They can be delivered in a variety of wrappers or formats according to client preference and size. This provision of high quality in-house investment capability will also differentiate Close Brothers.

Finally the business needs to be supported by functional technology and efficient operational processes. We've completed an extensive assessment of what we need in this area and of providers in the market and have recently selected FNZ to be the provider of our core custody administration and portal technology for our UK wealth business. FNZ is a leading provider of platform solutions in the UK.

The main reason for selecting them was their ability to support both our advice and execution only propositions with the same system and their highly efficient IT architecture based on straight through processing. They will provide the industrial strength IT systems and operational processes to support the business. Our work has been to configure and customise how our advisers and our clients will use this capability and to ensure that all the client-facing elements are unique to Close Brothers. Our differentiation will not come from the system per se it will come from our business model and our propositions and how they leverage the technology. We are now working with FNZ to implement our solution design in two phases; execution only in late summer; and advise towards the end of this calendar year.

There are several reasons why we believe our strategy will succeed. First we're not starting from scratch we're building on investment management, advice and distribution capabilities that we already have and the wealth of experience we have in serving affluent and high net worth clients. Second our new propositions have received positive responses in our market research and fit well with general trends in client behaviour. Third we're using market leading technology which will be an integral part of our clients' experience when interacting with us. Fourth our research shows us that the Close Brothers brand is a valuable asset to help raise our profile in a crowded market. Finally we have a large number of high calibre, client facing professionals. Following the acquisitions that we have made or announced we will have an adviser force of over 125 which will grow further and be a great asset to the business. Similarly we already have over 50 high calibre investment professionals who have a vast amount of experience in managing portfolios for private individuals and small institutions.

So how does this strategy compare with other market players? We've developed a compelling and distinctive offering and business model. Looking at the current industry landscape there are a number of competitors who compete against us in specific areas of our business. For example we would compete with St James Place in the advice space; Hargreaves Lansdown in the execution only space; and Rathbones in the discretionary space. However we believe that the industry is changing rapidly and it will look very different in the future.

Old boundary lines between different types of firms and business activities are blurring rapidly driven not only by regulation but also by changes in what clients want and how they want to interact with providers. Our approach is very much focused on the future shape of the industry.

I'd now like to turn to the progress we've made in implementing our strategy. We've made significant progress over the last 18 months. We've clarified our strategy. We have disposed of several businesses that were not core to our new strategy. We have completed extensive market research among both clients and prospects to help us develop our new propositions. We have selected, and are now implementing, the long term technology solution to underpin our wealth management business. We have launched a range of five risk graded unit trusts and migrated a large number of our affluent clients into them resulting in assets of over £1 billion across these five funds and these funds are core to our future growth plans. We have made offers or completed on three strategic private client acquisitions that will bring four new strategic locations for us, £2.6 billion of client assets and 77 new advisers to add to our existing 50.

Whilst all of this has been taking place our organic private client sales performance continues to be strong with net sales in just the first half of this 2011 financial year of £172 million or 5% of opening funds under management. This strong sales performance was driven by our high net worth business. Going forward we would expect organic growth to continue in the high net worth business as well as coming from the enlarged adviser team, our IFA sales team and the new execution only business.

Having clarified our business model the next stage of our transformation was to build scale. I'll spend a few moments talking to you about our acquisition approach and Steven will cover our organic activities later on although you'll see that the two are strongly linked.

The main reason for pursuing acquisitions is to accelerate our future organic growth capability. Acquisitions will quickly establish our presence in a number of important locations throughout the UK. They will also quickly expand the number of advisers we have who can then provide our future organic growth in assets and new clients. Finally acquisitions will help build our brand presence throughout the UK.

We take a very disciplined approach to evaluating acquisitions against strict financial and non-financial criteria. We're also very discerning in terms of what we look for in the businesses themselves. We're not looking to acquire businesses that are simply looking to exit ahead of RDR, rather we are looking for high quality, well run businesses that see the same opportunities as we do and are already implementing plans similar to our own, namely moving to a proper annuitised fee for advice and centralising the provision of investment selection in order to release capacity among advisers and raise the quality of the investment offer for clients. Each acquisition must have sufficient critical mass in assets, clients and advisers to make it a worthwhile opportunity.

There are three key ways in which we will create value from these acquisitions. First there are additional growth opportunities from making advisers more productive by leveraging the Close Brothers brand and distribution and by strengthening and expanding the range of propositions. Second revenue can be increased by capturing an investment management margin that IFAs typically don't enjoy. Finally there are cost synergies ranging from some initial overlaps in certain support functions to medium term savings as we integrate the businesses and clients are migrated onto our platform where we enjoy the economies of scale.

The acquisitions we have made together with the offer we have made for Cavanagh will add £2.6 billion of client assets and 77 new advisers to our existing 50. The total acquisition cost has been £49 million, representing just under 1.9% of assets under management. As you know we have recently also announced the disposal of our UK offshore and Cayman Islands businesses for a total consideration of around £50 million. So the acquisitions we have made so far effectively represent the reinvestment of these sale proceeds into businesses that will help drive our core strategy going forwards. These acquisitions are a means to us accelerating our future organic growth engine. We are not seeking to grow simply by acquisition.

To complete our geographic network and reach our initial target complement of advisers we would envisage acquiring a further £1 - £2 billion of client assets through acquisitions by the end of the 2012 financial year.

I'd like to end my introduction by explaining how far along the transformation process we are. In 2010 we clarified our strategy and began our investment spend, £6 million in that financial year. In the 2011 financial year we have exited several non-core businesses and will have borne the majority of the non-recurring investment spend, up to £10 million through the P & L in this financial year. Also in this financial year we have built our propositions and made significant progress on completing acquisitions. The 2012 financial year will mark a major turning point in our transformation. We will have a full financial year focusing entirely on our core business. We will end our non-recurring investment spend as we concentrate on rolling out our new propositions across the entire business. We will complete our acquisitions and be well advanced in their integration.

Looking ahead to 2013 and beyond it's all about delivery as we focus on increasing our organic growth rate yet further. As we do so we expect to benefit from the operational gearing inherent in the business which means that the combination of our acquired, plus organic growth over time will add more to revenue than it does to costs therefore moving the business towards industry performance metrics. I will address this in some more detail in the financial section later. I'll now hand over to Steven Mendel, Head of Wealth Management, to explain our propositions and distribution.

Steven Mendel

Thank you Martin and good afternoon everybody. As Martin said I will be talking about our propositions. Our thinking on propositions has been shaped both by our 40 years of experience in this marketplace and by extensive market research. This research was vital as we have all heard the criticism that clients don't feel understood by existing players.

Being so established made Close Brothers a highly educated researcher. The research was undertaken among both our clients and prospects over the last 18 months. It was rigorous, involving face to face interviews, focus groups, phone calls with over two and a half thousand people drawn from our target market, those 1.6 million people in the UK with between £100,000 and £5 million to invest, representing £650 billion worth of investible assets.

With this research we undertook a detailed segmentational exercise to understand what distinct groups of people there were. This has enabled us to determine what differences there were between segments in terms of what clients want from financial services firms and how they want to interact with them.

This exercise identified six very different segments. The segments were then categorised according to tastes and preferences and size for economic potential. This has enabled us to refine our marketing plans for our different propositions both in terms of who they'll be targeted at and how we will take each proposition to market. The financial benefit of this marketing insight should be reduced to client acquisition costs. For example, one of the groups we identified has a huge desire for advice and knows that they need to turn to specialists for this advice. We understand a lot about this group's demographics and their drivers for selecting one player over another. They represent 20% of the market place by number and a similar percentage of the market's assets, but account for over 28% by profitability.

We also learned that many clients do not simply want either advice or self directed solutions. Our research highlighted that as many as 34% of the 1.6 million base who want an execution only service together with the ability to use advice as and when required. Therefore, our propositions are designed to enable clients the opportunity to do business with us on their terms whether buying an ISA themselves or indeed requiring advice for major financial decisions in their lives; hence why our platform flexibility is so important.

One of the significant drivers of client acquisition is brand. And the good news on brand is that we have strong prompted brand awareness compared to our size and market position. One of the benefits of being part of a bigger group is that we are able to leverage the Group's brand putting us in a good position when compared to a number of our direct competitors. It is also encouraging that the attributes most frequently associated with Close Brothers - professional, trustworthy, established, reliable and easy to talk to - are exactly the ones we would want as a starting point to expand in the wealth management market. We intend to operate a single brand strategy under Close Brothers. All our acquisitions will move to the Close Brothers brand and we intend to do this as soon as achievable after acquisition so that we can build brand awareness as quickly as possible.

The main takeouts from the research is that there is an ongoing need for advice, a growing need for execution only offerings and, most importantly, the unserviced need for both. I'll now explain the rationale for these three offerings and set out how we intend to take them to market.

The first, the standalone advice offering allows us to service the sustained market demand for advice. The expansion of our advice offering is merely adding force to our existing well established financial planning capabilities. It is not a case of starting from scratch as we have extensive experience in this market place and we have few nationally branded competitors. Here we are planning to expand our range of offerings to create many more revenue streams.

There are several reasons why we have the second, the separate execution only proposition. There is a growing demand for this service particularly driven by a desire among investors to consolidate their assets in one place which is simple, easy to use and represents good value for money. Given that by definition clients do most of the work in this space it is highly scalable and offers attractive margins at scale. Even though we are outsourcing platform provision rather than building our own platform we have ensured that we are able to benefit from rising profit margins as we gain scale without the huge capital outlay required to build a platform ourselves.

We expect that the execution only offering will significantly expand our potential market share in the employer channel. Currently there we are targeting those employees who are retiring or who have been made redundant with a sizeable lump sum. In future we'll have a proposition that could be of relevance to the vast majority of employees with the potential over time to link this to their DC pension. We believe that advice costs will rise for many of the smaller clients historically serviced by IFAs; or, worse still, for smaller clients to be turned away under the banner of being 'uneconomic'. Certainly as the RDR is implemented there is likely to be an unusually large number of people looking for a new provider of financial services and once they have made their choice they are unlikely to move again in the short term. It is therefore important, from our perspective, to be actively present in the market with our highly scalable, low cost to serve, execution only capability from the summer of this year to be able to capture as big a slice as possible of this rapidly growing and changing segment.

As I said there are very few nationally branded advice players in the UK today that offer a full face to face financial planning and advice capability, and even less that also offer execution only. By the way, this is in stark contrast to many other financially developed countries where a combined offering is the norm. And it is this overlap and synergies that makes our third proposition compelling and is strongly underpinned through the segmentation as a major gap in our markets. Given that our target market's desire to link advice with execution only services we would expect that execution only will, for some clients, just be an entry point to Close Brothers before they upgrade to advice with us later in their lives.

Importantly these three propositions through gaining assets and clients create opportunities to cross sell our discretionary investment solutions. All our offerings will be based on our scalable platform and will be taken to market through our four distinct channels: direct for non advice or execution only; personal advisers; corporate advisers and our intermediary sales team. I'll now talk to each of these elements in turn.

We've been providing wealth management advice to clients for over 40 years and so our recent developments are based on experience that we have gleaned over a long period of time that we can now bring to bear on a rapidly growing client base. Our advice proposition to clients is based on six principles which together combine to form a differentiated proposition.

Starting top right. Financial planning will focus on a number of important areas of interest to clients. Clients can either have a holistic plan covering all areas or modular advice covering one or more area. We have completed a detailed specification of this and will be rolling it out through all Close Brothers advisers in the coming months.

Our award winning discretionary capabilities are delivered in a range of packages such as collectives, model driven separately managed accounts or fully bespoke mandates for our larger clients. We are delighted to have been named *What Investment* 'Best Discretionary Fund Manager' for each of the last three years which is a reader nominated award. These awards and our wealth preservation before wealth creation stance have proved highly popular with our clients. We have made extensive progress in this area and Nancy will talk more to this. It is worth pointing out at this stage that the investment expertise that I'm talking about is exactly the same as we're already offering directly to IFAs. We'll deliver our advice consistently across the UK currently through seven office locations and locally based advisers. Clients will have a named adviser and know other individuals on the support team.

Bottom left our service will be supported by the local client service team structure and the efficient paperless technology offered by our platform. Here we are building on our already high service levels which have led to strong client loyalty and very high levels of client retention. Next clients will have access to a personalised website which will enable them to have a consolidated view of their assets and investments. This is regardless of whether they are advised or execution only and is regardless of whether they are on the Close Brothers platform or not. The website will enable them to understand what their true net worth is across different account types and assets. It is this mechanism that has been designed to encourage clients to consolidate and retain assets with us.

Finally our pricing will be unbundled as required by the RDR and will be simple to understand. We intend to set our pricing in line with the market. Before I move on to a similar description of our execution only offering I wanted to pause for a moment on this last subject of pricing. This slide is intended to illustrate the basic changes to pricing required by the RDR. The top half shows that today clients pay the fund manager as the product provider. The fee paid to the fund manager is a bunded fee which also includes charges for investment management and non-investment management services. The fund manager in turn pays for distribution and the advice received by the client and also for platform administration.

Moving to the bottom half of the slide, post RDR, although we expect this to happen long before the 31st of December 2012 these different elements will be unbundled. Fees will in future be split into three elements: advice; fund management; and platform and all will be agreed and explicitly paid directly by the client. Our business model is set to make a profit margin in each of these three steps. Having the ability to take revenue in each area provides us with insulation from margin compression in any one.

Moving on to the elements of the execution only proposition which will be delivered via our new platform, and again starting top right. The knowledge centre will have a range of tools and information to enable clients to make informed and sensible decisions. Next the investment centre will enable clients to trade in a very large number of mutual funds as well as UK and international equities, gilts, bonds and ETFs. Our aim is to provide access to all the investments that clients would want typically to hold inside their portfolio.

Close Brothers products and services will be offered via the website and this represents an opportunity for us to capture additional profit margin. All our investment solutions will be available as will an easy link through to advice. An important and unusual element of our service and one which we believe will differentiate us is the provision of cash deposits with Close Brothers Bank Limited, our UK banking subsidiary. In addition this gives us the opportunity to offer the existing 47,000 premium gold depositors and the recently announced 15,000 Dunbar Structured Term depositors a broader range of services should they wish. In future we envisage offering Close Brothers Bank deposit offers via our portal so that the new deposits are opened in the new portal where a full range of services will be on show.

The website will also offer clients the ability to set email alerts. We envisage using this functionality to offer discounts to selected groups of clients at specific times in order to drive activity. As with the advice proposition clients will see a consolidated view across all their different account types which will cover non-Close Brothers and Close Brothers custodied assets. We would obviously be keen for clients to transfer their non-Close Brothers assets onto our platform and this is why we're keen to enable clients to see them via our portal. Over time we will provide incentives to those clients to move these assets onto our platform. Again from the research we have learned the importance of a UK based call centre to help provide help to clients.

Unlike the advice diagram, pricing is not listed here. Pricing in the execution only world is currently opaque with many clients feeling they are getting something for nothing because they don't appear to pay an explicit charge for a portal. Our pricing will also be bundled but will be highly competitive with the market because strong value for money credentials are key to success in this market. Overall, we will offer many advantages compared to the competition. These include the seamless link to advice, our ability to integrate investment management and cash deposit solutions. One final critical element will be our low cost ISA and SIPP wrappers where, for example, we will also offer a completely online paperless SIPP.

We've already mentioned the platform many times but I'd like to look now at it in more detail. The platform is an important part of our propositions and, as such, will have many differentiating benefits of its own, and in this way it forms a part of our competitive advantage. FNZ a leading technology provider is building and maintaining the platform for us. We will utilise their core capabilities as a platform provider and they are working with us to tailor the front end offering to our requirements. Looking first at the benefits to clients. This platform allows clients to have all their assets in a single place; those managed by us and those managed externally. Again this will also include a market leading cash offering. A client can logon to the platform and see a real time valuation of their entire portfolio at any point in time. The platform like our propositions will support both execution only and advised assets and hence reaches a wider client audience. The functionality is also important as it will improve the speed of the application process and will offer a wide range of products.

The benefits to us of offering our clients the use of this platform are significant. The consolidation of assets on a single platform means that we will have a real line of sight as to the additional assets that we don't currently advise on or are managed elsewhere. And we can target for additional revenues. In this way it is another channel to capture future flows. The platform also allows us to deliver economies of scale and once we do this by adding client assets the financial benefits start to kick in.

Clients tend to be fairly sticky, once on the platform they don't tend to leave. Our efforts in the first stage will therefore all be around gathering new assets and clients as well as on transitioning those assets on our existing in-house platform on to this new platform. For advisers the platform provides the opportunity to provide a greater level of service with lower time commitments leading to a substantial increase in adviser productivity. For example, through the removal of many of the paper processes and associated errors and re-work that are endemic in this industry today. This will also be an easy way for new clients to try the Close Brothers experience before moving on to use the fuller advice based services. The execution only platform will be rolled out in late summer and the adviser platform by the end of this calendar year. But there are two main forms of platforms, so let's be sure we're talking about the right type.

On one side platforms wholesale their services to IFAs as a back office administration service, as shown on the left hand side of this screen. Examples include Cofunds, Transact and Nucleus. On the other side IFAs and other platform users retail our platform to their clients by bundling it together with advice and the provision of products. We are firmly in this second category. We have chosen to outsource the platform build cost and complexity and are therefore not in the price competitive high fixed cost technology intensive business of wholesaling platforms to IFAs and other intermediaries.

I briefly touched on distribution upfront and given that we have now covered the propositions in detail it's time to turn our attention to our all important distribution channels. This slide illustrates our four channels: the one direct non advised or execution only channel; and three non-overlapping advised sales forces.

With regards to Direct another use of our market research is to permit us to specifically target this market. We will do this through a combination of direct mail and direct marketing. Our main target will be execution only clients and our offering will include our market leading discretionary proposition. Importantly there will be a link through to advice.

Turning to our three advised sales forces the largest, at over 100 face to face advisers, is our cadre of highly qualified and trained personal financial planners. The planners provide a range of advice services to clients either in our offices, over the telephone or in the client's home. Advice can be holistic in nature or on more of an ad hoc basis.

Next largest is our corporate advice force that is focused on employers and employees. For employers we provide a range of services focused around the design, implementation, management and governance of group pension risk and benefit schemes. For employees we offer retirement and annuity services. We believe that these services will become increasingly important as we move towards an environment where more and more employees look to their employer to facilitate financial education and advice. This move will be catalysed when the automatic enrolment legislation takes effect.

Finally, we have our intermediary sales team which is focused on selling our range of discretionary fund management services to clients of IFAs. This is a rapidly growing part of our industry and one we are keen to push further into. All advisers, regardless of type, are employed on a compensation structure that is aligned to both TCF and shareholder objectives.

To be a nationally branded provider of financial planning a national presence is required. Our experience and our research has shown us that potential clients like to kick the tyres of any company they're about to entrust their assets to. This will not lead us to having a presence on every high street, far from it. One of the outputs from the same research was a breakdown of the location of our target clients. We have married this with their propensity to visit us in our offices which has given rise to the desire to have a number of locations around the UK that are physical manifestations of the proposition that we are taking to clients. This approach will also have economic benefits with advisers able to spend more time with clients as they will be spending less time on the roads. We have therefore identified the need to have a small number of additional offices to complete this requirement. We expect a number to come through the remaining acquisitions that we are expecting to make although we may open one or two directly.

Having multiple routes to market is going to be vital to attract the volume of clients that we are working towards and here I list five in no particular order. Our employer channel provides a range of life stage based financial education seminars and holistic financial planning services to employees of targeted organisations. Here we're already a market leader and last year we provided over 400 seminars to 200 employers with over 3,000 attendees.

Direct utilises highly targeted direct mail, direct response media and topic based seminars to attract target clients. This is an area where we can also use highlights from our segmentation research. We'll be building on our very strong existing client satisfaction ratings, 88% average over the last five years, and we have created a dedicated referrals programme to secure warm, targeted leads from existing high value, happy clients. Indeed our existing clients are a consistent source of funds growth as they increase their wealth or consolidate more of their wealth with us as we continue to expand our range of offerings. Here we have recognised the latent value that we have in our large existing and acquired client bases such as through the utilisation of the Premium Gold clients. We are building a dedicated retention and nurture team to retain and grow client share of wallet.

We are also working towards adding brand aligned, national strategic partners to access large volumes of target clients through cost efficient marketing and distribution. Ideal partners would be companies that, like us, have strong untarnished brands in their chosen sectors but have yet to make a move into financial services.

Before I finish I'd like to share with you the look and feel of our portal. I couldn't do justice to the full richness and functionality of the portal today but let me show you a screen shot of one part, the account consolidation feature. This is a mock up of the account summary page. If you zoom in to the top of the screen the client can see their aggregate performance across all their accounts. This is the movement in their net worth. They can easily see their total net worth across, in this case, four different accounts. For each account we show the profit and loss and an easy access to action such as buying or selling. You will note that one of the accounts is called University Fund. People are often saving for a particular reason such as an extension, school fees, a second home or, as in this instance, university fees. Enabling clients to establish and name accounts that match the way they think about their financial affairs is a key part of our portal.

As with all other elements of our offerings we have based the client web experience heavily around the client research that we have been conducting, holding extensive user interface sessions to ensure that the pages are intuitive and clear. Web pages will contain certain strategically important elements; one is a personal human feel; another is a fund manager's views that are matched with their first name and a photo; there is always a prominent and easy to use link through to client support and advice; finally, there will always be a simple list of all the functionality available to the client.

And so to finish I'd like to summarise our four competitive advantages. The first three, the propositions, the platform and our institutional quality investment capability, make our offering stand out for our clients from those of our competitors. The fourth will ensure that we have the right volumes of clients.

Our range of propositions is compelling, applicable to a wide range of clients, and importantly is formulated after extensive market research and represents excellent value for money. Our platform technology is market leading and will offer great benefits to our clients and to us. We have outsourced the expensive unpredictable elements of technology builds, whilst retaining the client interface and differentiation elements. Above all we have created a solution that will allow us to economically benefit as we grow.

Our investment teams have proven their abilities across multiple market cycles and have demonstrated that they understand the private client psyche, as borne out by the multiple accolades and awards Nancy and her team continue to win. Add to this our broad access to distribution channels that will underpin our organic growth, building on our tried and tested existing channels, for example through our employer solutions, and adding in new channels such as partnerships, will allow us to leverage the untarnished strength of the Close Brothers brand to continue to grow organically alongside our acquisition efforts. So here you have four individual factors which we pride ourselves on. Each alone is important but it is the combination of them all that will make us a winner in this highly competitive marketplace. Thank you. I'll now pass over to Chief Investment Officer, Nancy Curtin, who will detail our investment management capabilities.

Nancy Curtin, Chief Investment Officer

Thank you Steven. Our focus on the investment side has been to bring together the engine room that supports all the investment offerings of the division, from affluent through to high net worth to institutional mandates, including for example family offices, charities and smaller pension fund clients. At Close we have over 50 investment professionals, over two thirds of which have over 20 years of investment experience. One of our core competencies, we believe, is asset allocation. Each quarter we set a strategic asset allocation framework for the whole business based upon a variety of proprietary both internal and external inputs. This strategic asset allocation view is that interpreted by our portfolio managers as befit particular client mandates. One of my responsibilities as Chief Investment Officer is to drive the asset allocation process and the overall investment process disciplines of the firm, and to ensure that investment decisions are reflected appropriately across client mandates.

Within portfolios our investment capabilities include the ability to invest across a broad range of asset classes. As shown in this slide we see ourselves as multi asset class investors, in the sense of being able to invest not only in traditional equities and fixed income but also in alternatives as well, including hedge funds, real assets and credit such as commodities and liquid real estate investment opportunities. We believe the alternative asset class arena is a core differentiator of Close and will likely play an increasingly important role in client portfolios in the future to reduce cyclicality of returns, as income substitutes and as a form of inflation, or even insurance, protection. Within these asset classes, moreover, we are both direct and multi manager investors. In other words, depending upon the client mandate, we can either invest directly in equities or fixed income using our own in-house Close expertise, or we can select external investment talent, based upon a highly disciplined internal research and manager assessment capability. Finally we can also implement our asset allocation through passive investments, where we believe this offers a more cost effective solution for our clients.

We have designated our product range to ensure we capture the maximum market share across target distribution channels. As you can see on this slide we have a number of delivery options that we offer clients and intermediaries according to their preference and portfolio size. Collectives, for example, are very efficient, scalable, and work particularly well for smaller clients. As Martin mentioned, we already have £ billion in our core range of multi asset class risk rated collectives. Separately managed accounts, based on multi asset class model portfolios, are also efficient and scalable. However because they offer a client their own direct holdings we view these as an aspirational sale to larger affluent clients. For high net worth and institutional clients we are able to offer a fully bespoke service where we can tailor investment portfolios to the unique circumstances of each client. Thus the investment organisation is set up to leverage a common asset allocation strategy to build a range of multi asset class portfolios which are directly managed by Close, externally managed multi manager, or passively implemented. We think we're better investors, and more attractive to our target markets, by having the capability to evaluate and offer the broadest range of options for our clients.

As mentioned, for our high net worth and institutional clients we aim through detailed consultation to provide a truly bespoke investment offering individually crafted investment portfolios which are tailored to client specific risk and return objectives, and which also factor in a range of other considerations such as investment horizon, cash flow need, tax, timing, and even liquidity preference. Our personal accountability and visibility to our clients is crucial and within our bespoke offering the senior portfolio manager who manages the investment portfolio is also the key relationship to the client. For our larger clients then we believe our role is to use our investment talent to help clients understand and better achieve their immediate and long term investment goals.

In essence we aim to provide a form of outsourced investment office for our high net worth and institutional clients, access to institutional quality investment expertise, implemented by a senior portfolio manager who best understands a client's need. Our clients highly value what we have to offer and are an important source of new business referrals. In a recent client survey 94% were very satisfied, the top mark, with the overall Close Brothers bespoke experience, resulting in a business, as measured by our high net worth assets, that's grown from £450 million to over £2 billion over the last five years.

Our investment approach has also delivered against our performance objectives and client expectations. As can be seen on this slide our portfolios, and here we've shown the aggregate result for our high net worth portfolios, have done an excellent job in providing strong risk adjusted returns. Relative to a 50:50 mix of equities and gilts we've produced significantly higher returns with a much lower level of risk in all three of our core strategies, over both one and three years. The three year record, which includes the second half of 2008, is therefore a record we're particularly proud of, since it demonstrates our ability to protect client portfolios in difficult financial markets.

Our performance also compares favourably to the competition, where in a recent analysis done by Asset Risk Consultants, also known as ARC, we generated returns well above the median competitor. A similar result can be seen by comparing our performance against the relevant APCIMS benchmarks, as shown on the slide.

In summary, our investment team looks to leverage an institutional quality investment process and philosophy, common, robust, and highly disciplined investment platform that can produce a range of multi asset class solutions for the benefit of different client segments.

The investment teams are in place and hence the firm's exciting plans for asset gathering, outlined by us today, can be thought of as assets under management delivered into a well-oiled investment engine. I'll now hand back to Martin.

Martin Andrew

Thank you Nancy. On this slide we set out the main financial benefits of transforming the division. First, following the various disposals, we have made our business more focused, transparent, and easier to understand.

Second, this focus will allow us to deliver higher quality earnings and to generate recurring revenue streams that are directly linked to the value of client assets. Revenues in the businesses that we are acquiring are also linked to funds under management, so they will also further enhance the reliability and predictability of our revenue line.

Third, it allows us to generate new types of revenue from advice seeking and execution-only clients, essentially multiple revenue streams from clients. We will seek to maximise the revenue earning opportunities from every pound entrusted to us by our clients.

As well as focusing on revenue growth we're also focused on improving the efficiency of our cost base. We have already told you about our £18 to £20 million of non-recurring investment in the division, and we expect this to be completed by the end of the 2012 financial year. We also expect to reduce certain support costs as we complete the integration of our acquisitions over the next 18 months or so. Over the medium term our platform will enable us to lower costs as we gather scale. Once we have moved to our new platform we expect to reduce costs further. The variable costs will increase as we add more clients and assets. However we expect increased leverage of our fixed costs as the business grows. Overall, once we have reached the necessary scale through acquisition and organic growth, our model will allow us to continue to leverage our fixed cost base and our existing investment engine and drive sustainable profitability for the division, something that couldn't have happened in its previous shape.

As you can see from this slide, we are creating a more diversified asset and revenue base. Our funds under management have traditionally been investment management discretionary assets only. Recently we acquired Chartwell, which provided advisory assets of approximately of £400 million, and an execution-only base of £300 million. Our acquisition of Allenbridge in February this year added a further £440 million of execution-only assets, and we expect our acquisition of Cavanagh to bring a further £1.5 billion of advisory client assets. We will continue to acquire predominantly advisory assets over the next 12 to 15 months.

As a result of these acquisitions, and the way we're changing the business, in future what we call funds under management will be a combination of discretionary management assets, assets under advice, and execution-only assets. Each of these categories of funds under management will generate its own revenue stream, management fees, advice fees and platform fees, the last two of which we have not had historically. This represents an opportunity for us to earn a blend of several revenue streams from our funds under management. Our overall revenue margin will depend on the mix of these different revenue streams.

Before I turn to the key financial drivers I wanted to recap where we are in the transformation process. You've heard during this presentation that we're a substantial way through the transformation phase already. We have refocused the division, built our propositions, and acquired three UK-based private client businesses. The next financial year will be important as we continue to transition the business towards profitability. The non-recurring investment spend will be complete when we launch our two propositions on the platform. We also expect to complete the remaining £1 - £2 billion of acquisitions by the end of the next financial year. We therefore expect the transformation to be broadly completed by the end of the 2012 financial year. Our priority from 2013 onwards will be to drive ongoing organic growth. This organic growth will come from a number of sources; net sales growth through our advisers will increase because we will have a much larger team of advisers than we have today. We expect continued net sales growth from our high net worth business, which has generated consistently good growth. We expect to see increased net sales from our IFA sales team as our presence in that channel matures and we establish new strategic relationships. Finally we also expect our execution-only proposition to be developing new business. As we integrate our acquisitions and migrate clients onto our platform we will start to benefit from economies of scale and operating leverage, which will enable us to drive the business to increased profitability.

Turning now to some of the drivers and key performance indicators that we will use to demonstrate our progress. The slide sets out the position we were in at the end of the last financial year, the position today, and the key drivers over the next few years as we complete the transformation and move into delivery. The key metrics which can be used to track our progress are relatively simple. The funds under management represent the stock of assets that provides our revenue base. The number of advisers provides an insight into one significant part of our future organic growth potential. Revenue margin is a key driver of profitability and will vary according to the mix of business over time. Together these metrics will drive the division's profit margin.

We have already made a lot of progress. Private client funds under management, for example, are £6.4 billion, up from £3.3 billion ten months ago. And our adviser base has grown to 127 from 50 at the beginning of this financial year.

The next stage of the transformation is focusing on building critical mass and moving towards industry-level revenue, and in particular operating margins. These metrics are not where we intend to stop. We will keep growing, driving forwards to become a leading UK wealth and asset management business.

Taking each indicator in turn, firstly assets; from the position today we would expect a further £1 - £2 billion of assets to come from acquisitions. In addition we expect to increase the quantum of assets from organic growth through a number of means, from a larger and more productive adviser force, our high net worth business, our IFA sales team, and our execution-only business.

Secondly, advisers. As mentioned the advisers are one important guide to our organic growth potential in both assets and revenue. Our recent acquisitions have grown our adviser force to the 127 that it is today. Their compensation structure will ensure they are incentivised to drive asset and revenue growth. In addition to growing advisory funds under management the adviser base will also be an important source of business for our discretionary management services, including high net worth, which will further increase the revenue generation of these assets.

We expect to grow the number of advisers further, and anticipate building a team of between 150 and 200 in the short to medium term. This will include potential expansion into additional geographic areas in the UK.

Now revenue. The revenue margin we earn on our private client assets will largely depend on the mix of revenue streams, the rate at which we migrate clients onto our platform, and the proportion of assets that we manage in-house. As we continue to grow our asset base some revenue streams will grow more quickly than others and some types of assets will have higher revenue margins than others. However, we expect the overall private client revenue margin to remain broadly around the current level of 100 basis points.

Finally profitability. Where we can get to, and how quickly, will depend on a number of factors. The primary driver is the critical mass we can achieve through our client and asset gathering efforts, and we have clearly shown you how we intend to do that. Additionally profitability is dependent on the pace of migration of clients onto our platform, the take-up of our investment products and market movements amongst many things.

As we move into the delivery phase from the 2013 financial year onwards we will start to benefit from economies of scale. As you can see, the range of industry profit margins is very wide, from 13% to 54%. However, Hargreaves Lansdown is an outlier at 54%, with a very different business model, and the majority of peers are in a much tighter range from 13% to 24%. Once we reach critical mass, which is our first phase of delivery, and as you have seen should be in the 2013 to 2015 time horizon, we would expect to achieve profit margins consistent with this majority. However, this is not our end game and we are not bounded by that. In the longer term our model will allow us to achieve higher levels of profitability as we continue to grow and benefit from operational gearing and scale economies.

So in summary, we've demonstrated that we have a clear strategy that is grounded in fundamental market changes, is well-researched, and builds on the core strengths Close Brothers already has. We have completed an aggressive and significant refocusing of the division by exiting several non-core businesses over the last two years. The resulting business is much more focused geographically, and in its offering. It's also simpler and easier to explain to all our stakeholders. We've made significant progress in defining propositions, choosing and implementing our platform, and in acquiring like-minded IFA businesses which will boost our scale particularly in the number of advisers. We have shown you the key economic drivers, both on the revenue and cost side, and our understanding of how we will drive them to transition the business to profitability. We are totally focused on delivering on our aim for this division to become a material contributor to the group.

Thank you for listening to the presentation, we are now happy to take question and hopefully afterwards you'll stay for a drink and some refreshments, and meet some of the management team we've got here today. Could I ask first if you're asking a question that you take the microphone that we'll hand around to you, and you state your name and your company name before you ask the question. Thank you.

Question and Answer Session

<u>Question 1</u>

Paul Measday – JP Morgan Cazenove

I'm sure there's commercial sensitivities around this, but I wonder if you could explain a bit further what your research has shown you about the kind of pricing model that you can implement the advisory service, whether it be a sort of ad valorem fee on assets under management or a fixed cost fee, what your thinking is there please.

Answer: Martin Andrew

Well, you're right, there are some commercial sensitivities around that but I think we can give you some insights. And the insights that we've got so far are that we don't expect the overall end to end cost that a client will pay for advice, investment management and the platform, to materially change. We also expect that the level of advice fees, which will be ad valorem based, by the way, will be in line with the market, and those are beginning to level out and appear in the industry as a norm. And I wouldn't want to give you a point estimate of that, but 75 to 100 basis points would give a typical range for an ad valorem advice base fee. We don't expect the investment management fee to be an ad valorem fee as it is today, and typically the platform fee would be as well. But by the time you bundle all that together we'd envisage that from most clients to be pretty consistent to where they are today. Do you want to add anything else to that, Steven?

Answer: Steven Mendel

Yeah, the only thing I'd add to that is to talk about smaller clients as well, I think that for smaller clients ad valorem fees will, they'll tier upwards for smaller clients, and I think that those ranges you were mentioning probably would look low if you were a smaller client, perhaps below £100,000 and still looking for advice. But other than that I completely agree.

Paul Measday

Thank you.

Question 2

Justin Bates, KBW

Afternoon. Could you just...? On slide 44 you mentioned the £880 million of funds from Aviva, what fees are you charging on those funds? What should we expect to disappear in them? That's the first question. And then if I could ask you if there any numbers you could put in terms of targets from 2013 onwards, whether it be assets under management or on number of clients.

Answer: Martin Andrew

Right. Okay, let me take those in the order you raised them. Yes, Aviva has stated publicly that they intend to in-source a number of multi manager mandates that they'd previously assigned to external managers, one of which was Close Brothers, so we will be losing the Aviva assets which is around £900 million at the end of September. It's obviously quite a large headline number of assets but the revenue margin on that is very low - I'm not in a position to disclose exactly what it is, but it's a low revenue margin - and therefore the impact on the group is not material.

In terms of assets under management and clients and targets beyond 2013 I think we've laid out where we expect our profit margins to move to once we've completed the transformation process which we aim to be completed by the end of the 2012 financial year and we start to benefit on the back of organic growth on top of the acquired growth, organic gearing which will take us into those majority of industry peers between 13% and 24% profit margin for the first phase. We don't have any, and we're not disclosing any specific AUM target or client number targets beyond that point. I can give you the current number of clients which is for information only but it's not of any particular target to us, but we started with 20,000 affluent clients and 2,000 high net worth clients. With the acquisition of Allenbridge we acquired 14,000 execution only clients and Chartwell brought 28,000 that were split roughly 50/50 between advised and execution only. So we now have around 64, 65,000 current clients and obviously the acquisition of Cavanagh will give us a significant boost to clients thereon on top of that.

Justin Bates, KBW

Thank you.

Question 3

Arnaud Giblat - UBS

It's Arnaud Giblat from UBS. Can I continue with the pricing question? On the multi asset business what are the total expense ratios for clients there and the revenue yields? And in the execution only how does a pricing model work there, is it a management fee per year and then execution costs for trading fees, and how do these compare versus the competitors like self trade or Hargreaves Lansdowne?

Answer: Martin Andrew

Okay, shall I take the first one and then, Steven, if I can ask you to take the execution only one? Our multi manager products and propositions we're due to launch later on this year, so we haven't finally determined what the pricing for those would be, but I would anticipate them being slightly more expensive for the end client than our in-house managed current range that's already in existence. So therefore, the client's total expense ratio I'd expect to be somewhat a little bit higher, and our revenue, the revenue yield we will get from that, depends on where we set the ultimate pricing and the cost we get for the ultimate funds within the product. So I couldn't give you a specific figure for that. But any of the propositions, be they direct or multi manager are leveraging existing resources we've already got.

Steven Mendel

Okay. Debbie, can you just flip back to page 19 and I'll just use this slide to help answer that question? In the unbundled world of advice we're in the bottom of the screen and I was saying that execution only is in the top half of the screen, it's still bundled. Of course there's no advice fee for execution only, but the line that goes from fund manager box to adviser in the execution only space would actually go back to the client so a client receives a rebate back from actually usually... directly from the platform rather from the fund manager. And that will be exactly the same and we will do exactly the same thing that Hargreaves Lansdowne and best investor, other fund platforms do. And you'll expect to see that pretty consistent in the industry. RDR doesn't require the unbundling of fees to the same degree for execution only as it does for advised, although clearly trail has to be shown.

Martin Andrew

And there'd be a number of transaction fees.

Steven Mendel

Yes, so we'd expect to charge for trading for example, separately, and any other fees for cash or other sources of income would be separate, but I'm talking specifically about the fund fees. Is that what you were asking about?

Arnaud Giblat

And your revenue model, I mean would you charge a specific management fee for the custody of the assets and a trading fee?

Steven Mendel

So the amount that isn't rebated back to the client is retained by the platform, so the fund manager rebates back to the platform a sizeable amount of money, only a portion of which is then rebated back to the client and the remainder is retained by the platform.

Martin Andrew

So in other words, we're adopting a fairly common industry standard for that execution only business.

<u>Question 4</u>

Tom Mills - KBW

Thanks. Tom Mills, KBW. I was just wondering, looking at the business historically it's been discretionary and you're moving towards a sort of blended discretionary advisory XO mix. Is it fair to assume therefore that your revenue per adviser will gradually decline over the medium term, and also what kind of capacity do you imagine the business will have with say, the 200 advisers that you're looking to acquire, or have by 2013?

Answer: Martin Andrew

Okay. Let me deal with the first one. Over time we would expect revenue per adviser to rise if anything, I wouldn't want to overestimate the amount, but we believe that through making advisers more productive, segmenting the client base, through having a broader range of propositions, the execution only as well as the advice to offer, introducing a higher annuitised ongoing fee for advice, still retaining the upfront implementation fee for advice should all - and using up the remaining capacity which I'll come onto in a moment – should all enable revenue to adviser to rise rather than decline. In terms of capacity it's still probably early days for us to know but we'd expect to unlock some capacity by making advisers more productive, partly through our office network, partly through segmenting the client base and moving smaller clients to telephone based advice or execution only, partly through the use of the platform, which as Steven has explained will make advisers much more productive throughout the entire business system. So we would expect to release some capacity already within the adviser force and certainly from talking to the businesses that we have acquired and the ones we're close to, there is already some, as in most businesses, some excess capacity in the advisers anyway. So I think we've got enough visibility on reasonable spare capacity on the advisers for the early stages of our growth.

Tom Mills

So it's the sort of holistic nature of the business that you're saying will enable revenue per adviser to increase, because sort of looking elsewhere at some of the other investment managers, I guess the ones that have got a blend of discretionary advisory generate lower income per adviser than those that are wholly discretionary?

Martin Andrew

Yes, and that may be because it’s a different form of advisory, so here we’re talking about proper holistic financial planning across all those areas that Steven mentioned on his diagram, you know, pension provision, protection, estate planning, the holistic financial planning which is different from advisory stock broking as opposed to discretionary investment management which are two different contractual forms of essentially doing the same thing which is buying and selling equities.

Tom Mills

Okay, thanks.

Steven Mendel

Sorry, can I just pick you up on one thing? I’m not sure whether you said that we don’t intend to acquire a further 200 advisers, I don’t know if you meant that or not? Okay.

<u>Question 5</u>

Robin Savage - Collins Stewart

It’s Robin Savage from Collins Stewart. I wonder whether you can tell me how many, what proportion of your advisers are qualified to level four? And can you just expand on the incentivise to drive revenue growth? Are these advisers going to be fee based, are they going to be paid salaries and with an incentive scheme and how does that tie into the revenue growth?

Answer: Martin Andrew

Okay, I’ll make a broad point on the latter question if I may and then, Steven, if you can pick up on more detail on the incentives and also where we are on the qualifications thus far. We are incentivising our advisers to grow the revenues and assets and also retain assets. And that relates to new business with new clients and new business with existing clients. Interestingly we’re not directly incentivising our clients on the share of assets that comes to Close as opposed to another asset manager, because we want the quality of the advice and the quality of the proposition to be as impartial and objective as we can. We obviously want to, and aspire to have, a significant Close Brothers market share, but we’re not actually incentivising the advisers that way. Steven, can you just give a little bit more flavour perhaps on the detail of how the incentives work, perhaps the link to compliance as well and then the qualifications please?

Steven Mendel

Sure. So our advisers are all remunerated on a revenue based structure, so in other words they earn their own compensation in line with what we’re earning from the revenue from clients and that revenue is of course taken into account when we look at the training and competency required from a TCF and a general competency and capability level. So advisers have a portion of their bonus that’s held back for T and C purposes. Add to that, as Martin was saying, a very large proportion of adviser structure based around retaining and expanding existing client relationships as well as attracting new ones. So hopefully that gives you some sense of adviser comp. And moving on to training levels, all of our advisers will be level four or above well in advance of 31st December 2012, and in fact we expect a significant proportion of them to be well above the level four required. And we’ve already got a large number who are level six and we expect to have many more who are level six, long before the end of next year.

Question 6

Clive Beagles – J O Hambro Capital Management

It's Clive Beagles from J O Hambro Capital Management. Can you, could you just talk, looking a bit beyond the sort of immediate future, you obviously highlighted the aspiration was to move margins above the 13% to 24% range, so how big in your mind does the business have to be, either in AUM terms or in revenue terms before you can move beyond that margin target range?

Answer: Martin Andrew

We're not being specific in terms of numbers on where we need to get to in terms of assets or timeframe, it's a qualitative comment we're making that that industry peer group range for the majority of our peers is not bounding our aspiration in terms of margin. What will drive our margin beyond that point is partly the organic gearing, the operational gearing in the business that comes from our platform, the execution only business in particular and also the advisers becoming over time more and more productive in terms of client acquisition and client servicing. So that gives us the confidence to expect our margins to be able to rise above that level but I can't give you a specific assets under management figure or time or margin which we will reach above that level.

Further question

Sure, but you've talked a lot about sort of positive operational gearing so you must have some sense for how that works, you know, for example if, I don't know, if the AUM was 15 billion for example would that be big enough to get you beyond the top end of the 13% to 24% range?

Martin Andrew

I can't comment on a specific margin relative to numbers, all I can make is a qualitative comment that we're confident that our margins can increase above that level as we add more scale and that'll be primarily through our organic growth through the means which we've told you about today.

Question 7

Robin Savage - Collins Stewart

It's Robin Savage again. Just to follow up on that point, I think on 26th April Towry Law had a press release talking about their results for 2010 and they said that ending the year with £4.2 billion of funds under management, they managed to get £79 million of revenue and £16 million of EBITDA which is I think a 20% EBITDA margin and with a cost base of £63 million. Now, I guess we hope that your business is able to operate within a reasonable cost envelope and that you might at some point be able to tell us what sort of level of costs the business... the revenue will depend on the funds which are given to you but the costs must be something that you've an idea of the scale that you can operate on surely?

Answer: Martin Andrew

Well, I can't give you a specific number, I can make some qualitative comments again. We are starting from a very, very different position from Towry Law, this business came from a position where most of the profits were coming from private equity, performance fees, fees related to product launches from an extremely diverse, wide, disparate range of businesses. They all happened to add up to around £8 billion but it doesn't equate to any other £8 billion asset under management business that I've ever seen. We're going through a significant transformation which will carry some costs in terms of investment, change management, technology, infrastructure, which will end up with a business which is a lot more homogeneous, focused, UK wealth and asset management orientated. And elements of that I admit will be similar to some of what Towry Law I think is doing, but I can't comment on Towry Law's number and I am confident that the balance between our fixed costs and our variable costs will change as we grow and we add more critical mass through acquisitions and through organic growth and we would expect the proportion of our variable costs to rise as a proportion of our total cost base. Hence the organic gearing and hence more flexibility in our cost base as well. But I'd emphasise, we're starting from a completely different position from a firm like Towry Law.

<u>Question 8</u>

James Alexander – M&G

James Alexander from M&G. Just in terms of transitioning, the existing client base, 64,000 clients, are they all going to go on to your new platform and is that going to be happening next year, this year? At what cost, what timescale? Risks of that?

Answer: Martin Andrew

A very good question. Ultimately we plan for all our clients to move onto our platform, we have a programme of a phased approach to that migration and not every client will come across but we expect the majority will, it's a very good platform, we've got some very good propositions and one of the reasons why we did the market testing and the market research was to give us some confidence on the success of those migrations. And we are well aware that we need to achieve a balance between doing the migration as quickly as we can because it's in our economic interest to do it, but not doing it so quickly that we damage the client base and lose revenues in the process. So that's why we've got a phased approach, I can't give you the specifics on what it is, but it is a phased approach and we'd typically expect, once we've got into the integration of a business we've acquired and started the client migration bit, we'd expect that client migration to last somewhere between 12 and 18 months as a rough guide. And it will depend a lot on the combination of platform and proposition that the client happens to be starting with, relative to where they're going to end up. And it is a client by client exercise, we are going to be, certainly for the advice clients giving advice and we'll need their consent to move client money. So it's a client by client exercise and it takes some considerable time. We have added, and everything I've spoken about here today in terms of our expectations for the future factors in, the resources we will carry to complete the integration of acquisitions and the migration of client assets. And we will add specific dedicated resources to do that, over and above business as usual.

<u>Question 9</u>

Justin Bates - KBW

Thanks. Justin Bates from KBW. Just one quick question if I may. Just changing tack slightly, I guess the key interest here is you building a business which is similar to

Hargreaves Lansdowne. So my question is what are the key sells from your perspective to perhaps us as clients choosing yourselves versus a Hargreaves in the future?

Answer: Martin Andrew

Well, I think there are some differences with Hargreaves as well as similarities, and we're certainly not setting out explicitly to emulate Hargreaves. What we're setting out is to offer a combination of execution only and advice which we believe currently nobody is doing in the balance and the way that we intend to do it. That's going to be underpinned by a level of quality and sophistication of in-house investment management that we think few of our competitors will have, and all of that is underpinned by some of the very best technology, we would argue the very best from our perspective, in the marketplace from a platforming perspective. And it's by the time you put all of that together, that's the compelling advantage for clients. It's going to be a very flexible place to conduct your financial affairs, how much you want to do yourself, how much you want us to do, the look and feel and control and visibility you'll get through the platform and the comfort of knowing that our investment management is designed to be integrated with our advice, it's not coming from two completely separate organisations. So that's where the attraction will lie.

Justin Bates

Okay, thank you.

Martin Andrew

I'm just conscious of time. If there's perhaps one more question, otherwise I think we should probably draw stumps and have a drink.

<u>Question 10</u>

Nicholas Midgley – Schroders

Nicholas Midgley from Schroders. What dialogue have you had with the FSA in terms of how you can be sure that your platform will fall under execution only if it has these kind of, these links to advice and that distinction's kind of blurred in places?

Answer: Martin Andrew

We just have to be very careful of it, we have to be very, very careful that we draw a distinction between execution only and advice, the content that's on the website, the tools that are on the website, what we enable clients to do just has to be absolutely crystal clear that it falls on the side of not giving advice. And when clients do seamlessly move into the advice world they know that they've crossed the Rubicon and now they're in a different regulatory environment. So we are very conscious of that, we're putting a lot of time and effort into the design of all the advice processes and the execution only processes to make sure the clients will be aware of that. And as a general point we have a periodic dialogue with the FSA about what our plans are ahead of time so that we have a chance to get feedback from them if they think we're doing anything untoward.

Concluding Comments – Martin Andrew

I think we should probably draw it to an end there. Thank you very much for attending and thank you for your questions and I hope a number of you will stay for a drink and have a chat with us afterwards. Thank you.

End