S&P Global
Market Intelligence

Schroders plc LSE:SDR

FY 2017 Earnings Call Transcripts

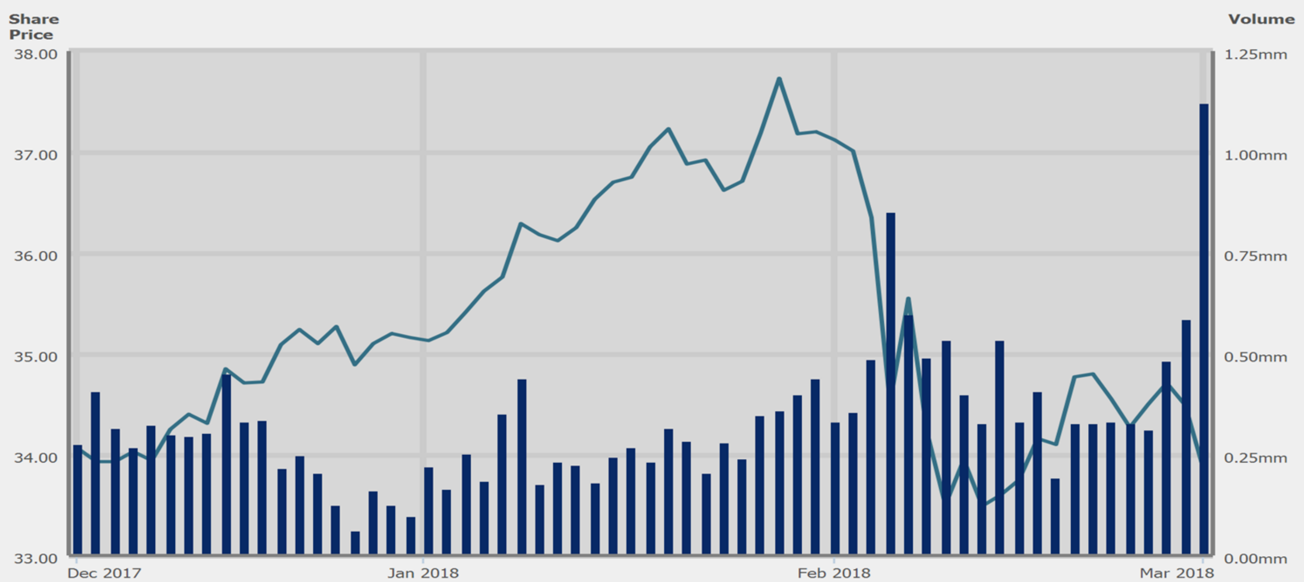
Thursday, March 01, 2018 9:00 AM GMT

S&P Global Market Intelligence Estimates

	-FY 2017-			-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	2.10	2.22	▲5.71	2.24
Revenue (mm)	1981.46	2068.90	▲4.41	2127.67

Currency: GBP
Consensus as of Mar-01-2018 8:22 AM GMT

Stock Price [GBP] vs. Volume [mm] with earnings surprise annotations



- EPS NORMALIZED -			
	CONSENSUS	ACTUAL	SURPRISE
FY 2017	2.10	2.22	▲1 5.71 %

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EXECUTIVES

Peter Harrison
Group CEO & Executive Director

Richard John Keers
CFO & Executive Director

ANALYSTS

Charles John Douglas Bendit
Joh. Berenberg, Gossler & Co. KG, Research Division

Gurjit Singh Kambo
JP Morgan Chase & Co, Research Division

Hubert Lam
BofA Merrill Lynch, Research Division

Presentation

Peter Harrison
Group CEO & Executive Director

Good morning, everybody, and welcome to the Schroders 2017 Full Year Results. Thank you for making the effort through blizzards on the first day of spring. We've got quite a few people online, so if we could be disciplined with microphones later on, that would be very helpful.

We're going to do the normal running order this morning. I'm going to take you through the high-level numbers. Richard Keers, our Finance Director, will then take you through the detail. And I'll come back and talk about the outlook and 1 or 2 strategy points.

But overall, we feel these are a strong set of results. We've delivered a 15% increase in net income to GBP 2.06 billion. Strong cost control has meant that our cost-income ratio has fallen from 64% to 61%, and that led to a 24% increase in net profits after exceptional items to GBP 800.3 billion.

Assets under management is a new high at GBP 447 billion, when you include assets under administration. And our net new business was GBP 9.6 billion for the full year.

We declared a full year dividend of 113p, which was up 22% on the previous year.

What I'd like to now is just quickly go through the flow numbers in a bit more detail, because I know that's important to you. Overall, GBP 9.6 billion of new business, and one of the features of these results is that it's spread pretty broadly across all areas of the firm. So Institutional saw inflows of GBP 4.2 billion; Intermediary of GBP 3.4 billion; and Wealth Management made an important contribution of GBP 2 billion of net new business.

One of the things we talked about at the interim stage was a very large outflow in sub-advisory. And we said we were going to give you more detail on the sub-advisory element of our business. So if I could just now split out those sub-advisory flows, you can see that, that GBP 5.8 billion outflow in the U.S., which occurred in the first half, we actually over -- for the full year, we actually had outflows from sub-advisory of GBP 4.2 billion, which meant that the branded flows were rather higher than shown on the previous page. Branded flows were actually GBP 7.6 billion, which is the highest level we've had since 2009.

I think big mandate losses will always be a feature, and internalization is definitely a theme in the marketplace. But the resilience of the business with Intermediary, Institutional and Wealth Management all contributing was an important part of the performance.

If we just now look at flows by asset class, again, the same pattern emerges. Equities saw a small inflow. Fixed income saw inflows. Multi-assets saw inflows; and private assets, which we broken out as a separate segment, also saw inflows. And if I just look at those split for you between Institutional and Intermediary, which you may find of help, equities was a small inflow of 0.1%, [actually masked] GBP 3.1 billion flowing into Intermediary and GBP 3 billion out of Institutional, which a large chunk of that relates to our quantitative equities group, which saw GBP 2.7 billion out, particularly in Australia, where the market dynamics are certainly changing. But we saw good inflows, particularly in global equities and in European equities.

Fixed income, the flow of GBP 3.5 billion was split GBP 0.7 billion into Institutional and GBP 2.8 billion into Intermediary. And really, all areas of our fixed income business contributed, particularly the credit areas and emerging debt, but there was a good contribution there. And in the multi-asset area, GBP 1.5 billion of flows. There, GBP 4.6 billion of Institutional flows and GBP 3.1 billion out of Intermediary, which is that big mandate we talked about earlier. So there, important inflows, particularly China, in risk mitigation and in total return mandates.

And finally, private assets, which was GBP 1.9 billion of flows into Institutional mandates and GBP 0.6 million into Intermediary, but you can see that a number of areas of the firm contributing.

If I just now look at that by region, to give you a flavor of that. The U.K. saw GBP 3.1 billion of flows split GBP 1.2 billion, Institutional; and GBP 1.9 billion, Intermediary, which was a good performance from the U.K. Europe, another strong year, GBP 4.3 billion of inflows. GBP 0.4 billion out of Institutional, but GBP 4.7 billion into Intermediary. And really, good performances, Germany, France, Spain, Italy, really across the piece. We did see an outflow of note in Switzerland and outflow of note in Benelux, but broad performance across Europe as a whole.

Asia was somewhat more muted than normal, GBP 0.9 billion of inflows, of which GBP 0.8 billion were in Institutional. Pleasing for me was that Japan and China, which are strategically very important to us, saw cumulative inflows of GBP 3.3 billion. But this Australian dynamic saw outflows of GBP 3.7 billion. So quite a big barbell within Asia between developing Asia and like more mature markets.

And then finally, Americas, which saw GBP 0.7 billion out, GBP 2.6 billion for Institutional but GBP 3.3 billion out of Intermediary. And again, that refers to that mandate. The underlying dynamic there, I think, was very pleasing, because if you have a GBP 5.8 billion mandate out at the beginning of the year, actually, to end up GBP 0.7 billion down was pleasing. Hartford delivered well, our retail Intermediary partnership, but also the Institutional business delivered well. So we were pleased with progress that we're making in the U.S.

That's a snapshot on flows. I'll be back to talk about it later. What I'm going to do now is hand over to Richard to take you through the detail of the financials.

Richard John Keers
CFO & Executive Director

Thank you, Peter, and good morning, everyone. As you just heard, 2017 has been a strong year for Schroders. Peter has covered growth and longer-term strategy. I will now explain how this translates into the 24% increase in profits that we have reported today and, in headlines, how I see this unfolding in 2018.

So let's begin with how the results break down and where the growth has come from. Net income increased by GBP 276 million or 15% to GBP 2.1 billion, driven by the growth in our AUMA, which closed this year up 13% at GBP 447 billion and also as a result of good performance fees. We have a total comp ratio of 43%. That's 1 percentage point down due to changes to our compensation policy for material risk-takers. The effect is to reduce the accounting charge in 2017, and I will explain how you should think about this in a moment.

Our total cost ratio has reduced to 61%. That's 1 percentage point down due to comp cost and a further 2 percentage points down due to other costs. These other costs were in line with the guidance I gave you, allowing for acquisitions. So as you can see, this is strong revenue growth, driven by AUM and performance fees, combined with good cost discipline that has driven the 24% growth in profits to GBP 800.3 million before tax and exceptional items.

We have a full year tax rate of 21.4%, which is higher than the 20.5% we had last year. The increase is mainly due to the reduction in expected benefit of our U.S. deferred tax asset. This is a one-off adjustment and comes from the U.S. government's decision to lower the corporation tax rate from 2018. It means our deferred tax asset is worth less, and we have taken a charge now. However, we will see the benefit of a lower U.S. tax rate in the future. Our forecast is for a lower headline rate in 2018, possibly between 20% and 20.5%. But as you know, this does depend on the mix of profits between the various tax jurisdictions.

The tax charge for 2017 of GBP 172 million takes profit after tax but before exceptionals to GBP 629 million. With exceptional items of GBP 34 million, which mainly relate to the amortization of intangibles, that brings us to profit after tax of GBP 594 million, an increase of 21%.

Right. Let's start by looking at what's driven the increase in net income. As I've already mentioned, the -- I'm sorry, as I have already mentioned, AUMA was up 13%, but the driver of most of our net income is average AUM, and that was up a little more at 19%. That is driven by the impact of 4 things: acquisitions, investment returns, FX and net new business.

So let's see how each of these 4 factors has affected income. Starting with acquisitions. These increased our average AUM by GBP 10 billion. That's the acquisitions this year and a full year impact of the 2016 acquisitions, which together increased net operating revenue by GBP 57 million.

The next 2 factors, investment returns and FX, increased average AUM by GBP 53 billion, increasing operating revenues by GBP 193 million. Looking at the 2 components: investment returns have brought strong growth, with related increases in revenues being only partly offset by changes to fee structures. The net effect is higher revenues of GBP 125 million. This year, on average, sterling has been weak compared with the whole of 2016. And as a result, we saw an increase in our revenues of around GBP 68 million. Finally, we generated GBP 9.6 billion of net new business in 2017. The revenue from this and the full year effect of 2016 flows has increased this year's revenues by GBP 10 million. But as you just heard me say, for new business, we focus on annualized revenues, and the flows this year have generated GBP 63 million of annualized revenue, of which GBP 24 million is in these numbers. That's a little higher than the revenue number I just quoted, which is because the impact of 2016 flows has partly offset the growth in this year's revenue.

In 2017, we also generated strong Alpha performance, resulting in performance fees of GBP 78 million, an increase of GBP 37 million on 2016. As you know, performance fees are difficult to predict, but at this early stage of the year, we are budgeting GBP 40 million for 2018. Bringing this all together means a GBP 297 million increase in net operating revenue. That's 17% up.

Lastly, other income decreased by GBP 21 million. This is due to one-off gains in 2016, partly offset by GBP 6 million of income from assets under administration. The overall outcome is a 15% increase in net income to GBP 2.1 billion. Let's now look at this by segment and channel.

Starting with Institutional. Net operating revenues were up GBP 122 million to GBP 814 million, with closing AUM at GBP 256 billion, up 13%. GBP 30 million of the revenue increase is due to performance fees, which were GBP 58 million. The remainder was driven by higher average AUM, which was up GBP 37 billion, with revenues up GBP 91 million or 14%.

Net operating revenue margins, excluding performance fees, were down a little from 32 basis points to 31.5 basis points. That's a bit better than the guidance I gave you, and let me explain what has happened. We have seen continued Institutional demand for lower-margin fixed income and multi-asset products. Although these flows were at lower margins, they still generated GBP 12 million of annualized revenue growth, of which around GBP 2 million is included in these results. So that's good for revenues. They have, however, pulled down our revenue margins a little. The decline has been partly offset by the acquisition of Adveq, which has added GBP 6 billion to our AUM at the end of July. And as you would expect of a private equity business, it is at a higher revenue margin. So there are a number of factors impacting margins, but at this stage, we still see less than 1 basis point decline in 2018, so still around 31 basis points. As always, this will be highly dependent on markets.

Now let's turn to Intermediary. Net operating revenues were up 17% to GBP 929 million, with AUM of GBP 134 billion at the year-end, which is up 12%. The increase in revenue was mainly driven by an GBP 18 billion rise in average AUM, with revenues up GBP 124 million or 16%. We also earned GBP 20 million of performance fees in 2017, which is a year-on-year increase of GBP 8 million. As we have heard from Peter, we had net new business of GBP 3.4 billion, with demand for higher-margin products. What is important for us is that those net sales have increased our annualized revenue by around GBP 44 million. Of this, about GBP 19 million is included in the 2017 revenues, with the rest coming through in 2018. So unlike Institutional, net new business has increased our margins, and importantly, it is bringing strong annualized revenues, which is a key focus for us.

To help with your modeling, let's look at net operating revenue margins, which were 72 basis points for the year, excluding performance fees. That's a 1 basis point decline over the year and is 2 basis points better than I expected at the half year. The reason is that higher-margin net new business, combined with strong equity markets, pushed up the higher-margin business as a proportion of AUM. The effect was to offset the declines that I set out a year ago. Despite margins holding up this year, we still see longer-term pricing pressures. And as a result, our margins may fold a little in 2018 by perhaps a bit. But again, this will depend on how our business mix changes from net sales and markets.

Moving to Wealth Management. Net operating revenues were up 20% to GBP 267 million. That was mainly driven by a GBP 42 million increase in management fees, which were up 26% to GBP 204 million. Benchmark Capital contributed GBP 10 million to that increase. And you can see on the slide, other income was also up a little. Revenue margins, excluding performance fees, were 61 basis points. That's down 4 basis points, consistent with the guidance I gave you and is due to Benchmark. Annualized revenues are also a key focus here. The Wealth Management business has generated around GBP 7 million on GBP 2 billion of net sales, with around GBP 3 million included in these results. For your models, we expect margins to be around the same level in 2018. But here, the business mix, the level of transactional fees and interest income will all have an effect. At this stage, we see no reason for you to change revenue margins for your models. With that, I am concluding my comments on revenue. The rest of my presentation is focused on operating cost and group capital.

And I start with operating costs. As you know, comp costs are the biggest component of our cost base and make up around 70% of our cost. This year, we have made changes to our remuneration structure for employees who are deemed to be material risk-takers under new regulatory requirements. This required us to increase the proportion of their pay that is deferred. The increase in amounts deferred this year has reduced our total comp ratio by 1 percentage point. This is an accounting benefit, and it will disappear over 2 years as we build up performance years with greater deferral. The outcome is a total compensation ratio of 43%. We're expecting this to increase to around 43.5% in 2018 as this accounting benefit unwinds.

Non-comp costs have increased by GBP 31 million in 2017 to GBP 387 million. That's slightly higher than guidance due to Adveq operating costs. Managing a successful balance of controlling costs whilst investing in growth opportunities is vital for our long-term success. As a result, we have been able to reduce our total cost ratio by 3 percentage points to 61% in 2017.

As you've heard from me before, our focus is on investing for future growth, in technology, in accommodation, in our people and in selective acquisitions. In 2018, we will see some important changes being realized with further investment for the future. This will be reflected in some growth in our cost base, and it's worth taking a moment to give you some more color to help you understand this. Starting with acquisitions, we will see an increase of around GBP 10 million as the full year impact of the transactions we completed in 2017 comes through. Both Peter and I have briefly talked about the investments we're making in technology, and key to our long-term success is our new front-office investment platform, which will go live later this year. This is an exciting time for Schroders, and we expect to see longer-term benefits, both to the way we operate and to our overall cost base. For now, in 2018, we are anticipating increased technology costs of around GBP 25 million, including dual running costs until legacy systems are decommissioned. As you know, the group has grown significantly in recent years. Profits have more than doubled in the last 5 years from GBP 360 million in 2012 to over GBP 800 million this year. This growth is underpinned by our people, and the headcount has increased by around 50% over the same period. With more people comes a need for more space. In 2017, we moved into new offices in New York, aligning with our growth strategy. And in 2018, we'll be moving into our new headquarters in London, along with changes in other locations around the world. As a result, costs are going up by around GBP 20 million, but this just reflects the growth we have seen and expect to see going forward.

Similarly, other costs such as marketing, VAT and people-related costs are moving in line with our increased operational scale. Finally, as we all know, regulatory demands continue to be significant. This includes paying for research, but this will not be material. Bringing this all together, we expect to see non-comp costs to be GBP 450 million in 2018. Finally, we're reporting GBP 35 million of exceptional operating expenses. These are primarily acquisition-related costs, and they include the amortization of acquired intangibles. We're budgeting around GBP 30 million of exceptional items in 2018.

Now let's turn to the last section on capital. We continue to maintain a strong capital position, but equally, we remain focused on making our capital work harder to support our future growth. Total capital increased by GBP 318 million to GBP 3.5 billion at year-end. You can see on the slide the 2 views of our capital that I'll take you through at the half year. I now take you through the more significant movements. Other items increased by GBP 0.3 billion to GBP 1.1 billion. The increase is mainly driven by the growth in our pension scheme surplus and due to acquisitions.

Looking at our pension surplus first. We've seen this grow from GBP 67 million 5 years ago to GBP 163 million at the end of 2017. That's driven by the outperformance of our asset portfolio relative to changes in the value of liabilities. As you know, we manage these assets. During that same 5-year period, we've seen investment returns of GBP 457 million on opening assets of GBP 777 million despite also investing in LDI assets to derisk the portfolio. At the same time, we have paid benefits of GBP 242 million. The other reason other items has grown is due to acquisitions, which increased goodwill and other intangibles by GBP 213 million. It's the combination of acquisitions, increases to our seed and co-investment and strategic spend on our property, estate and technology assets that has reduced our liquid investment capital, which you can see on the right-hand side of this slide.

As you would expect, our regulatory requirements have also increased as the business has grown. That means our capital surplus after deductions is GBP 1.2 billion. That is slightly lower than the figure for 2016 and is due to the investments we have made. You can see that both our capital surplus and our liquidity are managed carefully, with an eye to enabling and sustaining our growth agenda. Overall, we continue to maintain a strong position, and I see this as a positive.

So in summary, this hasn't been a bad year. Net income is up 15% to GBP 2.1 billion. Our good cost discipline has delivered a total cost ratio of 61%. And when you put these 2 factors together, it means a profit before tax and exceptional items of just over GBP 800 million, which represents a 24% increase. That, in turn, equates to a 22% increase in basic EPS before exceptional items to 226.9p. Reflecting this performance and in line with our progressive dividend policy and a payout ratio of around 50%, we've increased our final dividend by 23% to 79p per share, which brings the total dividend for the year to 113p.

Thank you. That's enough for me. I hand you back to Peter.

Peter Harrison
Group CEO & Executive Director

Thank you, Richard. Those of you who attended our Capital Markets Day will be familiar with the 7 areas of growth that we outlined and which I talked about a bit at the interim stage. I just wanted to revisit our progress on that, because I think, to my mind, getting investment for the future right is absolutely mission-critical to being deliver -- able to deliver consistent growth. And these 7 areas of expansion and investment are really important to our future growth.

And just moving on the chart from left to right, products and solutions, we made some changes in the management team here during the year, and Charles Prideaux is now leading that group. But more importantly, we've launched our strategic capabilities. We've launched about 40 new products across a whole range of areas, particularly high alpha solutions areas and multi-asset. We've completed our rebranding. We've got a lot more digital presence. And I think what we're seeing from these results is a number of those new areas starting to deliver good growth. And I think for me, getting the right products on the shelf is mission-critical.

I also talked at the Capital Markets Day about the importance of longevity, and you will have seen in the acquisitions we've made and the development of our private asset strategy, the growing longevity is certain to have a real impact on our long-term growth rate. And I think that's definitely something that we will return to again.

Fixed income multi-asset remains a key part of the market. We saw GBP 5 billion of growth in this area despite that one-off outflow. And although in North America we saw marginal outflows, actually, the underlying progress in that business was really very strong, both on the Institutional and on the Intermediary side.

Asia Pacific for me is about how we develop some of the more peripheral markets. Malaysia, for example, is an important contributor this time. But also those big markets of Asia, China standing out; and Japan, where we see the changes in regulation really favoring those managers who have taken the high road. And that, again, has contributed positively to these results.

Technology is now a terribly fashionable thing to talk about, but I do think it's transformational in an industry which is about data processing. Rich has mentioned we made a big investment, whether it be in cloud computing, whether it be in front office systems, whether it be in data centers, whether it be in CRM systems. But ensuring that we're match fit here is absolutely critical. And I think whilst we've made a lot of progress, particularly around data insights, it will remain an area of high investment going forward, because I think it's the area where we can really differentiate ourself from the competition.

The 2 areas we didn't talk about in detail at the Capital Markets Day were private assets and Wealth Management, so I just want to spend a moment longer on those now. We decided this time to strip out private assets for you, because it's going to be an important part of our strategy going forward. So on this chart, there's some more granularity of the areas that we're including in this. And the top bit of the pie are absolute return funds around emerging market debt and our open architecture GAIA fund range. And then you get into alternative forms -- so more private asset forms, the first 2 being more alternatives, whether it be securitized credit, infrastructure finance, insurance-linked securities, private equity. What's interesting about this chart, that with the exception of commodities, that all these areas contributed to our growth in private assets this time. Adveq performed well. We saw -- we reported in our results GBP 0.3 billion of net new business. Actually, for the year, they posted GBP 1.1 billion, but we didn't consolidate the other GBP 0.8 billion because it was prior to the closing of the acquisition. We also saw some important growth in our real estate business. I think the weight of money flowing into these markets remains a really big opportunity for us. We've launched this year what we call our alternative sales force, which is a growing group of people who are dedicated to selling alternatives beyond our traditional sales force, will remain an important area of growth.

And finally, Wealth Management. And I probably put myself on the hook a little bit last time we met saying we will turn round our Wealth Management business. And I think I'm pleased with these results. There's more to go. But we saw GBP 2 billion of net inflows, of which GBP 0.9 million was from the Benchmark business and GBP 1.1 billion was from our traditional Schroder Cazenove Wealth Management business. And within that, the U.K. Wealth Management business of Cazenove performed particularly well, with GBP 1.7 billion of flows. And that, for me, is the engine of growth. We partnered out our Italian Wealth Management business, which meant there were some flows out of that business just whilst the partnership was going through. So underlying GBP 2 billion of inflows, we completed the whole acquisition of their Wealth Management business, which went well, with staff retention and client retention. And the Benchmark acquisition has also performed well. We saw growth of 30%-plus in their EBIT contribution and their revenue growth. So across the piece for me, the Wealth Management business really starting to fire, and we've got some really important bits of the jigsaw in terms of the way the Wealth Management landscape is changing. So again, an important part of our strategic future growth.
That was all I was going to say on the slides. What I tend to do now is to do some Q&A. What we'll do first is we'll do the people in the room. There may well be some people online who've got questions, in which case I would ask them to press the button, and their questions will be relayed into the room.

Question and Answer

Peter Harrison
Group CEO & Executive Director

If you could say your name and organization, that would be great.

Hubert Lam
BofA Merrill Lynch, Research Division

It's Hubert Lam from Bank of America Merrill Lynch. Three questions. Firstly, on costs. You had an exceptional year of cost income at 61% this -- in '17. Obviously, it seems like costs are creeping up. Just wondering, is 65% still your objective for the medium term for cost income? My second question is on M&A opportunities. You had that colorful slide, Slide 17, which showed your diversification across the alternative platform. Just wondering where within that pie chart you think you would like to grow further in, given that you already -- it feels like you're diversified already, but where do you think the greatest growth opportunity is? And maybe around that, talk a little bit about valuation in terms of where you're seeing in terms of M&A opportunities out there. And lastly, on just recent market sentiment. Obviously, markets have been a little bit more challenging year-to-date. Just wondering what, in terms of your conversations with Institutional retail clients, if there's anything -- any big change in market feeling?

Peter Harrison
Group CEO & Executive Director

Thank you. We are retaining a target of 65%. I think it's -- we are working really hard on simplification of the business, and that's what a lot of this technology spend is going on. Whether or not we'll end up cutting that target as we really get down into it, I'm conscious that markets are at good levels at the moment, and there's an element of fixed cost in our business, but we don't let cost rise to 65% to hit the target. That's certainly the case. But we are very, very focused on -- this is a competitive market. Passive's growing. Ensuring that we fix the roof and making sure our costs are low is an important part of the strategy.

Richard John Keers
CFO & Executive Director

So if I could add, if we're sitting here in 10 years' time and we've seen significant growth in the business and we're delivering 35% profit margin, I think the shareholders have done very well. So in the short term, yes, I would hope we're going to beat that. But in the longer term, if we're growing the business and we deliver 35% profit margins, I think we'll all be very satisfied.

Peter Harrison
Group CEO & Executive Director

Yes. This is a really important point. Rich and I spend our time saying to you that this is a revenue business. If you've got a 35% operating margin, GBP 1 of revenue is a valuable thing. And I get slightly frustrated by a commentary which is all about cost when, actually, if we can grow revenues and grow longevity, we're in a really good position. And that's about partnerships and good client proposition. Your second question about acquisitions, you're absolutely right. And valuations are high, and that's a real impediment to -- I think we've got to look at the intrinsic value of businesses, and the fact that money is cheap and prices are high is a deterrent to doing the wrong thing. And we're certainly, I would say again, we are not looking to do transformational transactions. You can see the way we've rifle-shot individual product opportunities or region opportunities is much, much interesting and much lower risk, much more culturally accretive and doesn't give any tail risks. So to my mind, that strategy is very much in place. You -- the second part of your question was where. The private asset space is vast, and that's one of the attractions of it. For me, we will look across that space. The 2 areas that stand out of easy opportunity for us are incrementally adding to our real estate business. I think that makes good sense. And private debt, which is a huge space where, I think, there's more to do. But that's not to preclude that we won't do things in other areas. But they're the 2 areas. But I would put the [rider] on valuations strongly. And finally, on market sentiment, I think it's a very good point. We had a ridiculous period of very low volatility last year. I mean, no more than 3% move in any 1 month and every month one of increase. And that now has been -- has changed. But I think that what's been remarkable has been the resilience of the marketplace. And I think it's settled down very quickly. I think it's fair to say we would expect to see more volatility in markets in 2018 than we saw in '17. That's not a particularly brave assumption, because how does it get much lower. But what we haven't seen is an underlying tone and tenor change. I mean, I think there is still a sense that the economies are in good shape. Markets are functioning well, and that underlying confidence hasn't been dented. Are there any more questions?

Charles John Douglas Bendit
Joh. Berenberg, Gossler & Co. KG, Research Division

It's Charles Bendit from Berenberg. A couple of questions. Just in light of your comments on markets, what portion of your fixed income held by Institutional clients is, by nature, needs to be invested via insurance clients or pension clients? And what portion do you think is susceptible to some higher aversion towards the asset class? And second question, Lloyds Banking Group is maturing a sizable Scottish Widows mandate. Is that a tender process that you're looking at, or is that a capability you don't currently have?

Peter Harrison
Group CEO & Executive Director

On the first, I mean, you're absolutely right, the fixed income market is very polarized between 2 groups of investors. One is those who need to hold the asset class, and they're matching their liabilities, and it's particularly true in the insurance space; and those who are opportunistically looking to invest in fixed income. We were fortunate in building our fixed income business over the last 5 years, and we built it in the knowledge that rates were very low. So we have got very little exposure to products which are not more total return orientated or opportunistic. With the exception of a credit franchise, which would be damaged by rising rates insofar as, if spreads were to widen out and underlying rates would increase, then the appetite for credit would decline. That's an area where we've got very strong performance and have delivered very well. So I think we watch it, but I think the reality is too precious there. One is underlying rates going up, and the other one is this huge thirst for income, which doesn't go away. And so if you were to see a bit of a backup in rates, the income buyers would come back in. So I'm not overly concerned there, and we don't have a large book of traditional sovereign mainstream index-like money, which is -- I think that's a very difficult market in which to make money in. And on Standard Life, I'm afraid I'm not going to comment on individual client things. We participated in success with the Friends Life acquisition. But in terms of Standard Life, whether we do something or not, I'm not going to be drawn on, I'm afraid.

Gurjit Singh Kambo
JP Morgan Chase & Co, Research Division

Gurjit Kambo, JPMorgan. Just 2 questions. Firstly, in terms of multi-asset, I think your flagship fund has done very well last year versus some of its peers. But I know your multi-asset offering is a lot more diversified than just one fund. So just get some thoughts on where demand is coming in, in multi-asset. And second, just in terms of your technology spend, how should we think about technology spend to sort of be ahead of the pack in terms of revenue opportunities versus sort of cost rationalization or efficiency?

Peter Harrison
Group CEO & Executive Director

So yes. Multi-asset, you're right, it's a very broad church. So it's got things like income products in there, some multi-asset income products which will remain good; risk mitigation products, which, again, were particularly strong last year; and DGF growth, biased DGF funds, diversified growth funds. And all of those areas are performing well. We've increased the range of products in terms of variability of risks, so from lower risk to higher risk rather than just mid-risk, which is some of the areas of product development. But I think what we've seen is across the piece, those areas have been important. The area which I think for long term, where we can really differentiate is around the solutions space. And what was pleasing to me this time was a [reasonable] portion of new business coming in and bespoke solutions for clients, where they come to us with their problem and we answer it. And that's particularly -- some of the really big regions of the world go through derisking. They're looking at it saying, "How we can find something which is bespoke to us?" And I think in a world of mass personalization, that trend will get ever larger. And so with the big investment we're making in solutions is in advance of that business continuing to grow. Technology spend is a -- you're absolutely right. There's a cost and efficiency point, and there's a revenue piece. There's also a third one, which is the alpha. And I think we've spent a lot on trying to ensure that our portfolio managers get good information in front of them in order to make better decisions. So a big investment in their desktop applications, in our data insights team and building the ability to handle very large data sets on the cloud with new coding languages, et cetera, is one part of investment. The other is around sort of moving data centers, becoming more secure, but also around creating simplicity. And a big chunk was a move to going agile, which enables you to have many, many more smaller projects and incrementally improving. The big windfall on costs will come, as Richard alluded to, once we've implemented a single accounting book of record and a new front office system. I think we're targeting taking down 170 applications, which is really big simplification of our estate. And I think what we're looking to do is to maintain high spend to really drive home this sort of extra opportunity that we've got in terms of being on the front foot. So most of it is being aimed at costs and simplification. And certainly, something like robotics is all aimed at cost. But we're increasingly -- AI helping us on trading algos, et cetera, on decision support will become -- that will move more into revenue space. And then there's some bits of technology which aren't really technology, but rebranding, getting websites more automated so that they're much more responsive to consumer engagement. There's a technology component to that, pretty small, but that does drive revenue.

Should we go -- no? If there are no questions online, which I'm being told there aren't. Any more for anyone? Well, thank you. Thank you for making the effort to come in through the snow, and thank you for your attention.
We'll also be holding a Capital Markets Day probably in early October, similar to the one we held last year. We'll circulate the date shortly.