

Strategy on track

Interim results for six months ended 30 September 2016



Agenda

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2. Financial results
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1. Key messages



Key messages

- Group returned to profitability
- Agreement reached in relation to investment managers' variable remuneration arrangements
- Turnaround programme complete and implementation phase of transformation gathering pace with focus on delivering enhanced client experience, growing revenues and improving operating efficiencies. The Group's medium term operating margin target of 15% remains achievable

Update on remuneration proposals

- Consultation concluded - investment managers representing approximately 90% of FUMA have currently accepted
- 2 new schemes to take effect from 1 April 2017, 1 each for employed and self-employed investment managers
- Both schemes profit based (revenues less direct costs less allocated costs) with two distinctions:
 - ❑ Employed receive salary, associates receive 25% of revenue
 - ❑ Employed allocated costs based on a per account charge, associates based on a percentage of revenue
- The new schemes lower the overall ratio of compensation paid as a percentage of revenues

Operational highlights - positive momentum across all divisions

- Restructured Investment Management Services management team providing improved stewardship
- Created a range of risk-rated pooled vehicles being readied for launch
- Reorganised the Financial Planning division's management team and completed a full strategic review
- Launched a mobile-optimised digital website and new pricing structure for Charles Stanley Direct
- Delivered process efficiencies across the Support Functions
- Rationalised the Group's London offices

2. Financial results



1H17 Financial headlines

Financial highlights

Profit before tax from Core Business

1H 2017	£4.2m
1H 2016	£3.5m

Reported profit before tax

1H 2017	£3.6m
1H 2016	£2.0m

Earnings per share from Core Business

1H 2017	6.86p
1H 2016	6.12p

Reported earnings per share

1H 2017	4.44p
1H 2016	£3.04p

Dividend per share

1H 2017	1.5p
1H 2016	1.5p

Business highlights

FuMA

30 September 2016	£22.5bn
30 September 2015	£20.0bn

Discretionary funds

30 September 2016	£10.6bn
30 September 2015	£8.9bn

Fees from Core Business

1H 2017	£44.5m
1H 2016	£44.0m

Revenues from Core Business

1H 2017	£68.8m
1H 2016	£70.8m

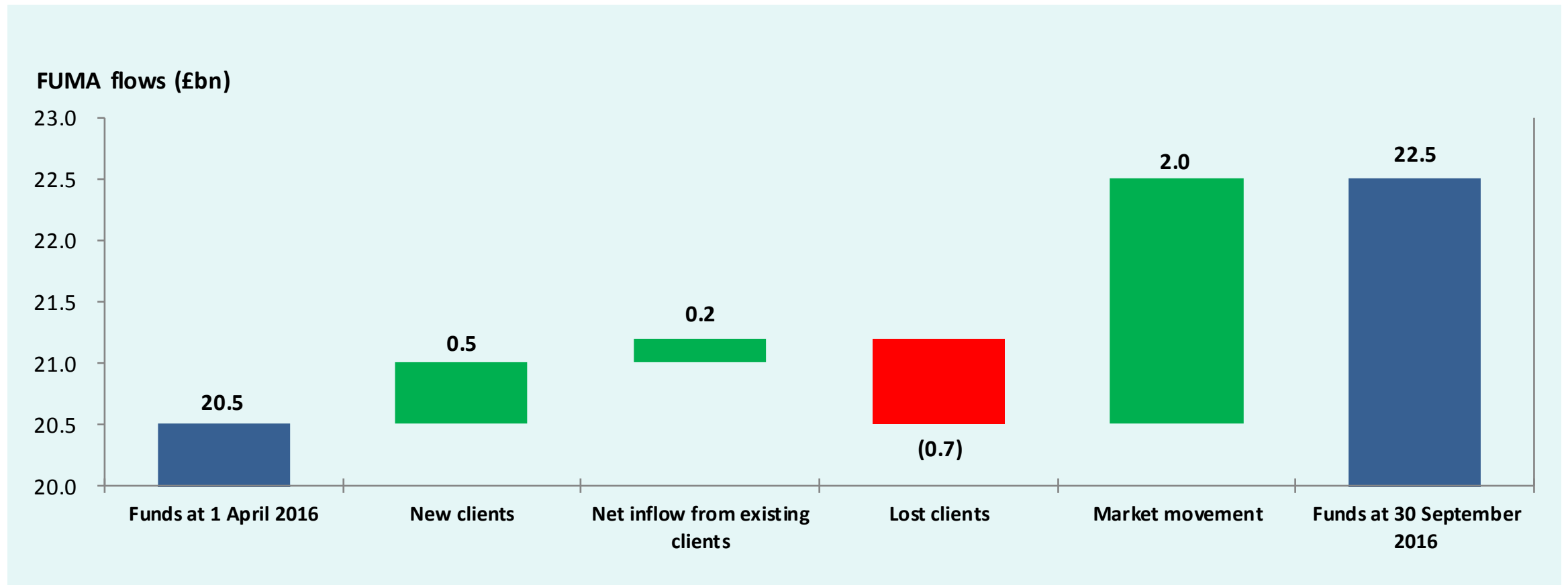
Financial summary

	1H17	1H16	Change	
FUMA (£bn)	22.5	20.0	13%	Increase in FUMA broadly in line with markets
Core Business revenue (£m)	68.8	70.8	(3%)	Revenues down due to lower trading commission, interest on client cash balances and trail commission exceeding increase in fee income
Core Business profit before tax (£m)	4.2	3.5	20%	Profit up despite lower revenues due to improved cost control and finance income
Reported profit before tax (£m)	3.6	2.0	80%	Reported profits also up after taking into account adjusting items
Core Business EPS (p)	6.86	6.12	12%	Increase in Core Business EPS in line with higher profits
Reported EPS (p)	4.44	3.04	46%	Reported EPS impacted by increase in effective tax rate
Interim dividend per share (p)	1.5p	1.5p	-	Interim dividend maintained
Net assets (£m)	82.0	86.8	(6%)	Net assets and regulatory capital impacted by increase in the defined benefit pension scheme deficit but cash resources increased
Capital adequacy ratio	139%	148%	(6%)	

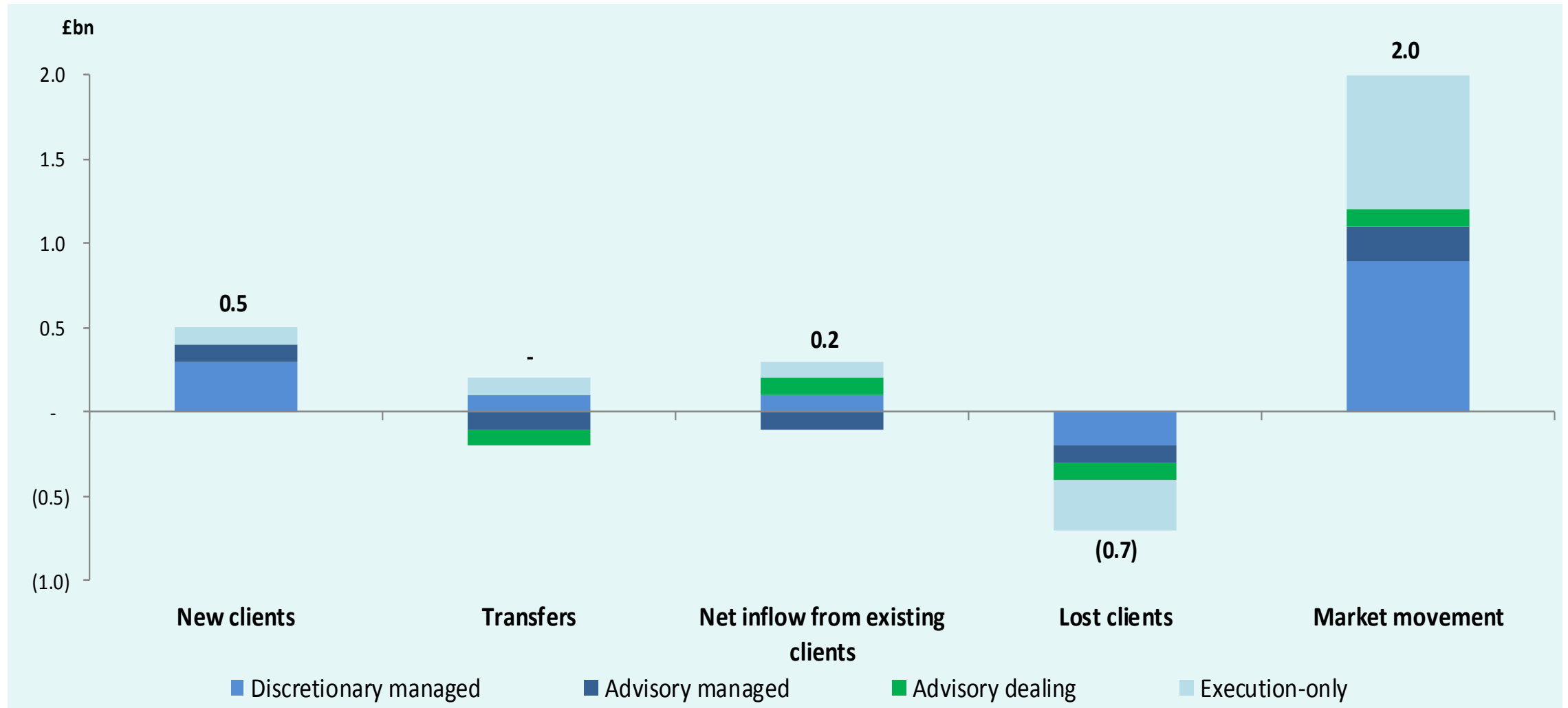
Funds under Management and Administration

FUMA movement year on year (£bn)	1H17	1H16	Change	
Discretionary funds	10.6	8.9	19%	Although average FuMA during the first half were 3% higher than prior year, the closing FuMA at 1H16 were 13% ahead reflecting strong market growth post BREXIT and creating positive momentum for the third quarter
Advisory Managed funds	2.6	2.3	13%	
Total Managed	13.2	11.2	18%	Strong Managed flows, both market driven and net organic inflows
Advisory Dealing funds	1.7	2.0	(15%)	Advisory Dealing continues to reduce, accelerated by departure of a number of investment teams
Execution-only funds	7.6	6.8	12%	
Total Administered	9.3	8.8	6%	Execution-only funds continue to grow, and include an 18% increase of CSD platform funds
Total FUMA	22.5	20.0	13%	Overall increase of 13% net of £0.4bn fund outflows attributable to departing investment managers
FTSE 100	6,896	6,062	14%	
WMA Balanced	3,915	3,421	14%	

Funds under Management and Administration - movements



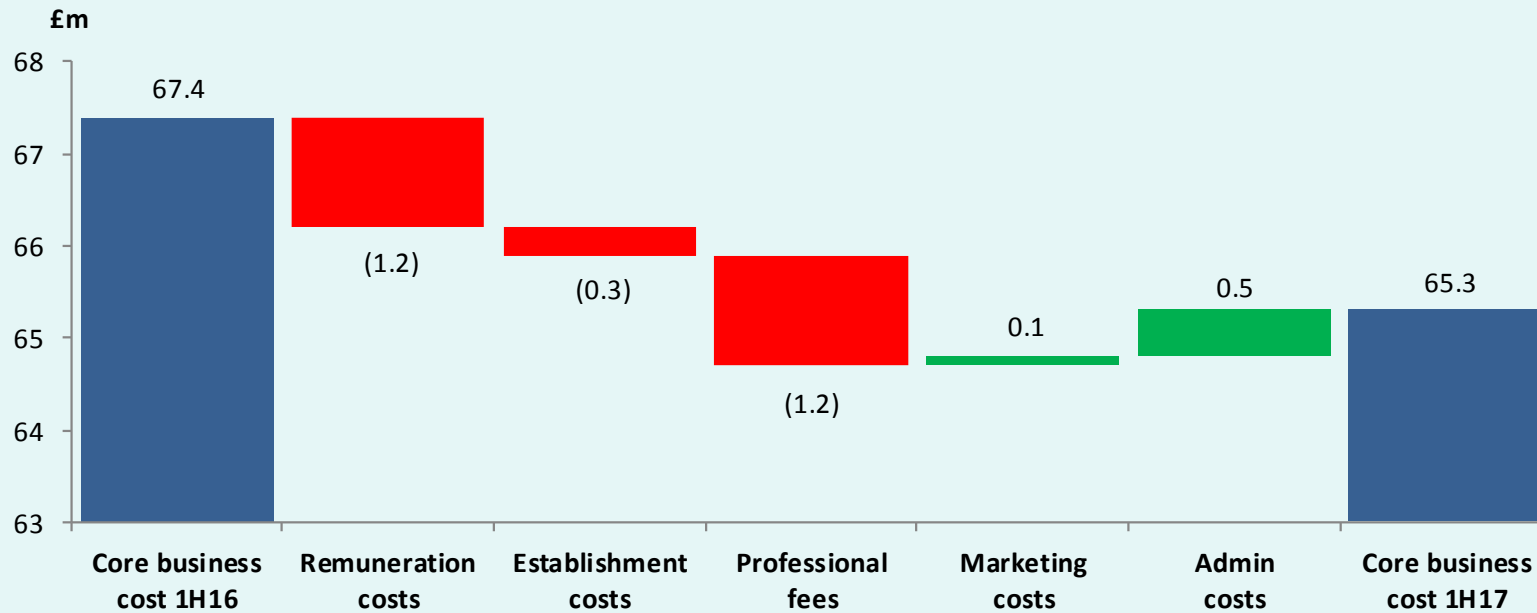
Funds flows by category



Revenues

	1H17 £m	1H16 £m	Change %	
Fees:				
Fee Income	44.1	40.9	8%	Fee income improvement in the period negated by a decline in other revenue streams, mainly trail commission
Trail Income	0.4	3.1	(87%)	
Total fees	44.5	44.0	1%	
Commission	23.0	24.8	(7%)	
Interest	1.3	2.0	(35%)	
Total revenue	68.8	70.8	(3%)	
Revenue margins:				
Investment Management Services	65bps	68bps	(4%)	IMS revenue margins down due to loss of non-fee income. Repricing exercise currently in process to address this.
Asset Management	72bps	78bps	(8%)	
Charles Stanley Direct	22bps	30bps	(27%)	
Bargain numbers:				
Commission Earning	233,078	227,106	3%	Overall bargain numbers increased but income impacted by mix between commission earning and non-commission earning trades as more clients adopt fee only tariffs
Zero Commission	184,913	156,829	18%	
All Commission Types	417,991	383,935	9%	

Core Business operating expenses - improved cost control

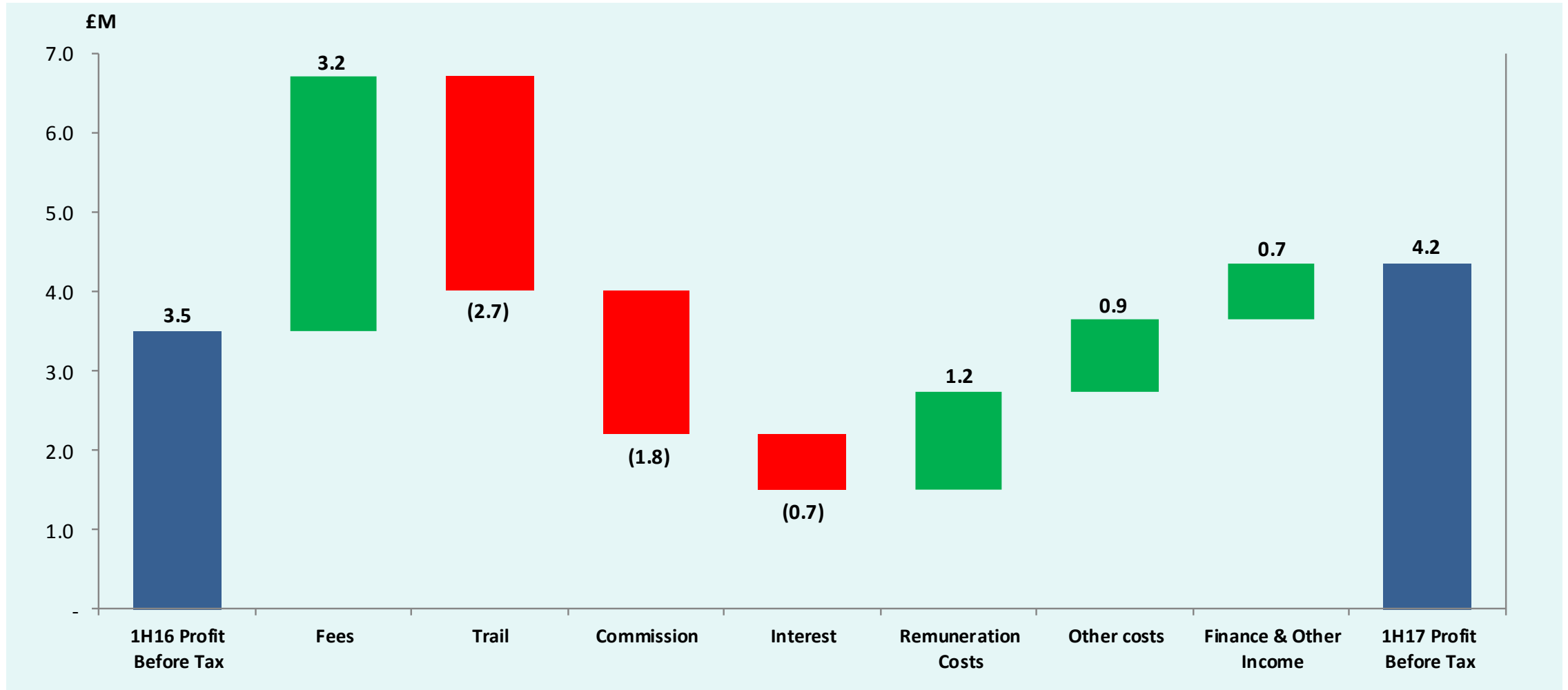


Expenses incurred by the Core Business areas fell 3.1%

The largest proportion of savings were achieved by reducing remuneration costs, down £1.2 million, driven by a 5.4% reduction in headcount to 898 employees (1H16: 949 employees) and lower variable remuneration costs

Professional fees were also down by £1.2 million due to completion of the suitability review and lower use of external professionals than in prior year

Core Business profitability - steady increase



Reported performance and breakdown of adjusting items

	1H17	1H16
	£m	£m
Core Business profit before tax	4.2	3.5
Adjusting items		
<i>London Office Rationalisation:</i>		
1. Net gain on surrender of long term lease	3.2	-
2. Overlapping rent and occupancy costs	(1.9)	-
3. Dilapidations	(0.9)	-
Amortisation of client relationships	(0.7)	(0.9)
Profit on part sale of Runpath Group Limited	0.4	-
Impairment of intangibles	(0.7)	(0.4)
Exceptional professional fees	-	(0.5)
Profit on disposal of Matterley Undervalued Assets Fund	-	0.1
Net charge from adjusting items	(0.6)	(1.7)
Held for Sale	-	0.2
Reported profit before tax	3.6	2.0

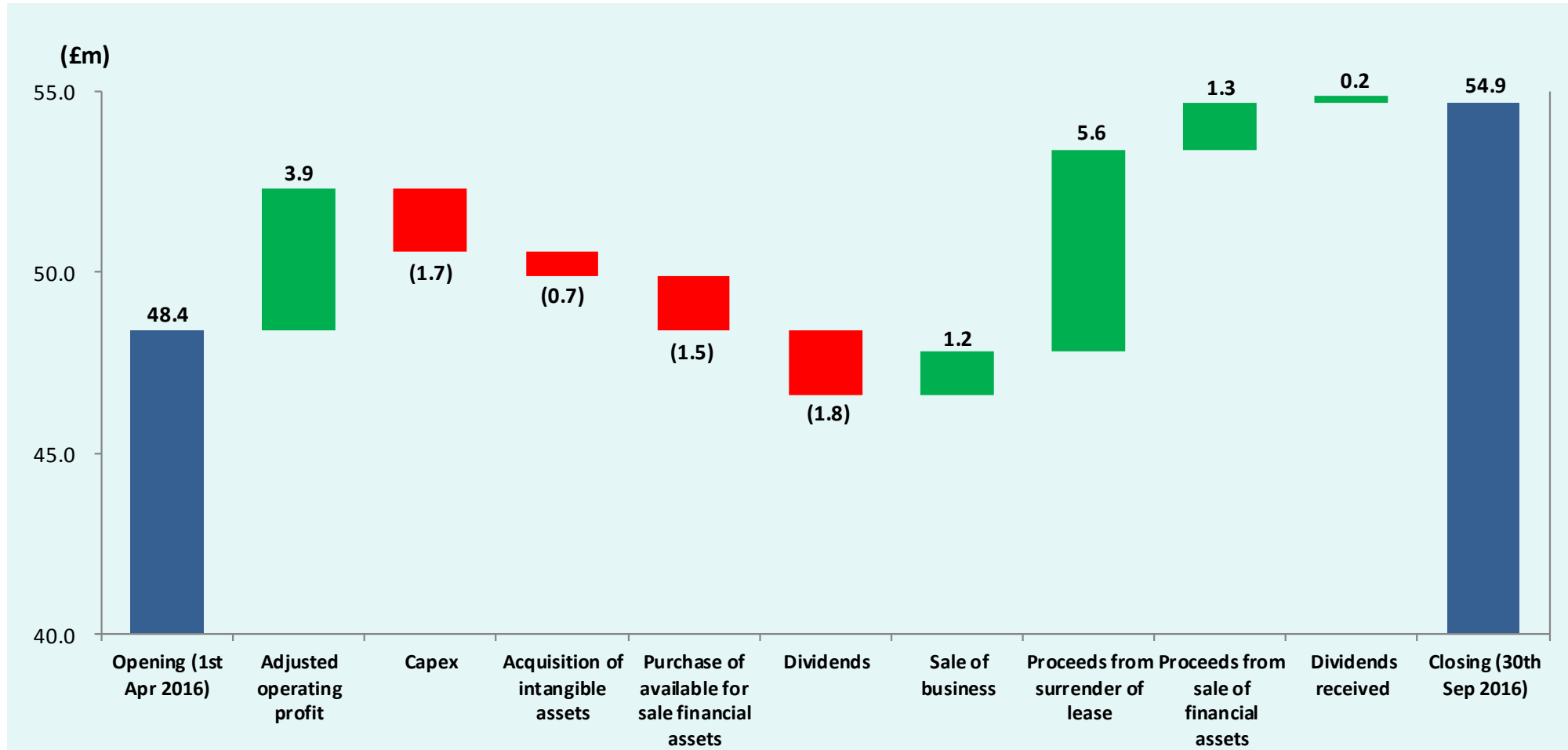
Balance sheet

	1H17 £m	FY16 £m	Change %
Total intangible assets	23.9	25.4	(6%)
Fixed assets	9.0	10.7	(16%)
Other non-current assets	11.1	9.9	12%
Total tangible non-current assets	20.1	20.6	(2%)
Cash	54.9	48.1	14%
Working capital	(0.7)	(0.4)	(75%)
Assets held for sale	-	1.7	(100%)
Total net current assets	54.2	49.5	10%
Pension deficit	15.2	10.1	51%
Total non-current liabilities	15.2	10.1	51%
Net assets	82.0	85.4	(4%)
Net tangible assets	58.1	60.0	(3%)
Regulatory capital resources	53.4	55.7	(4%)

Increase in cash position partly due to the proceeds received on the surrender of the lease at 35 Luke Street, London

Increase in the Group's defined benefit pension scheme deficit due to a significant decrease in long term corporate bond yields at 30 September 2016 compared to 31 March 2016 impacting the discount rate applied to assess present value of future liabilities

Cash flow - also improved



Financial KPIs

	1H17	1H16	FY16
FUMA (£bn)	22.5	20.5	20.5
Core Business revenue growth	(2.8%)	3.5%	(3.3%)
IMS Managed funds per CF30 (£m)	48.0	38.8	40.8
Revenues per Financial Planner (£000)	218	172	198
Reported staff costs / revenue	66.1%	65.8%	68.6%
Reported total costs / revenue ¹	101.2%	97.6%	100.5%
Capital adequacy ratio	139%	148%	151%
Core Business EPS (pence per share)	6.9	6.1	6.9
Reported EPS (pence per share)	4.4	3.0	(0.6)
Dividend (pence per share)	1.5	1.5	5.0
Dividend cover (times)	3.0	2.0	(0.1)
Return on Capital Employed	3.7%	2.0%	(0.3%)

¹The reported total costs used in this calculation are before stripping out adjusting items and before net finance income

3. Strategic implementation plan



Strategic implementation - actions for FY 2017

Group

Completion of detailed divisional strategy implementation plans

Project resource prioritisation agreed

Investment Management Services

Variable remuneration arrangements delivered

Implementation of revised rate card

Invigorate sales and marketing channels

Asset Management

Restructure investment process

Refinement of product range

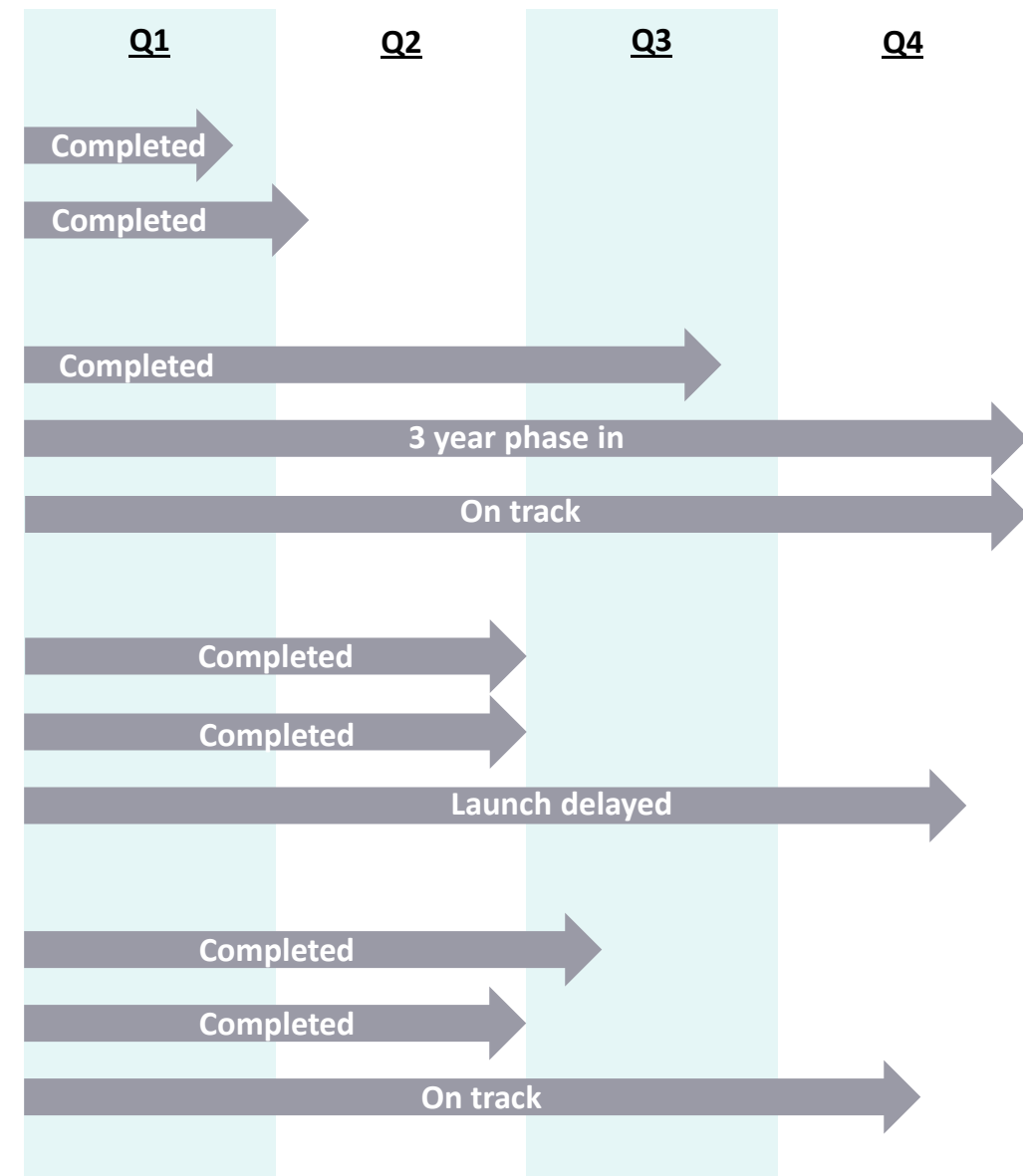
Develop and launch Personal Portfolio Service

Financial Planning

Revamp customer value proposition

Launch 3rd party marketing programme

Increase integrations between Financial Planning and Investment Management Services



Strategic implementation - actions for FY 2017

Charles Stanley Direct

New website with streamlined on-boarding

Review and implementation of pricing policy

Enhanced digital marketing strategy

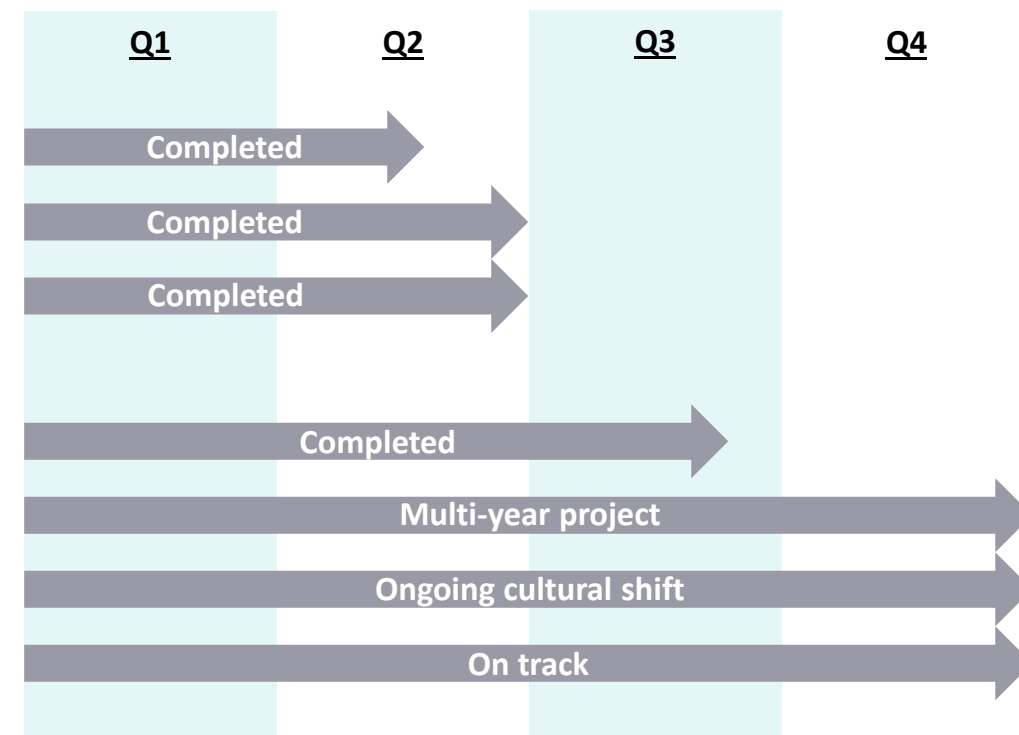
Central Functions

Head office move and London offices rationalisation

Focus on process standardisation and scale to improve operating efficiencies and reduce costs

Mobilise the workforce towards full implementation of the strategy

Development of improved governance framework and management information to improve speed and quality of decision making



4. Outlook



Outlook

- Market conditions remain favourable
- Conclusion of the remuneration consultation is a significant milestone
- Strategy in place to deliver sustainable growth; management are focused on detailed implementation plans and staff engaged to make it happen
- Medium term 15% operating margin target remains achievable

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Appendices



Share plan for employed investment managers

- Creation of a new share plan for up to an additional 5% of current issued share capital. Acceptance of revised contract terms by employed investment managers is conditional on the new Share Plan being established which in turn is conditional on shareholder approval
- Share Plan to be divided into 2 pools, Pool A and Pool B
- Pool A
 - For 40% of total Share Plan (ie up to 2% of current issued share capital)
 - To be awarded to employed investment managers in consideration for them entering into less generous contractual terms
 - Quantum of award to be based on weighted managed assets managed by each investment manager as at 31 March 2017
 - No performance conditions: vest after 3 years with further 1 year holding period
- Pool B
 - For 60% of total Share Plan (ie up to 3% of issued share capital)
 - Quantum of award to be based on growth of weighted managed assets over the vesting period
 - Vesting conditional on collective operating margin of employed teams attaining 15% by 31 March 2022 (or 2020 or 2021 if achieved earlier). Further 1 year holding period

Defined benefit pension scheme

	1H17 £000s	FY16 £000s
Fair value of scheme assets	28,798	26,561
Present value of defined benefit obligation	(44,035)	(36,651)
Scheme deficit	(15,237)	(10,090)
Key assumptions:		
Discount rate	2.3%	3.6%
Mortality	100% of S2PxA	85% of S2PxA
Key sensitivities:	Changes in assumption	Changes in Liabilities
Discount Rate	(0.25)% p.a.	4.8% p.a.
Rate of Inflation	0.25% p.a.	0.9% p.a.
Rate of Mortality	Increase in life expectancy of 1 year	3.7% p.a

Recent actions taken to limit the Group's exposure to volatility of pension surplus/(deficit):

Closed to accruals for active members	April 2016
5 stage de-risking flight plan to achieve long term objective of self sufficiency adopted	September 2016

Core Business - divisional breakdown

	Investment Management Services	Asset Management	Financial Planning	Charles Stanley Direct	Core Business
	£m	£m	£m	£m	£m
30 September 2016					
Revenue	59.8	3.1	3.8	2.1	68.8
Expenses	(53.8)	(2.9)	(5.8)	(2.8)	(65.3)
Other income	0.2	-	-	-	0.2
Operating profit / (loss)	6.2	0.2	(2.0)	(0.7)	3.7
Net finance income	0.5	-	-	-	0.5
Gain on sale of business	-	-	-	-	-
Profit / (loss) before tax	6.7	0.2	(2.0)	(0.7)	4.2
30 September 2015					
Profit/ (loss) before tax	4.7	(0.3)	(0.7)	(0.6)	3.1
Change	2.0	0.5	(1.3)	(0.1)	1.1

Investment Management Services - financial performance

	1H17	1H16	Change
	£m	£m	%
Revenue	59.8	61.3	(2%)
Direct costs	(30.3)	(32.6)	7%
Other income	0.2	0.1	100%
Contribution	29.7	28.8	3%
Allocated costs	(23.5)	(23.3)	(1%)
Operating Profit/(loss)	6.2	5.5	13%
Contribution margin	49.7%	47.0%	
Operating margin	10.4%	9.0%	
Headcount (number)	418	445	(6%)
FUMA (£bn)	19.3	17.2	12%
Revenue Margin	65bps	68bps	

Investment Management Services FuMA increased 12% to £19.3bn in 1H17 (1H16: £17.2bn). Revenues decreased 2% to £59.8m (1H16: £61.3m) because declines in dealing commission, trail commission income and interest earned on client cash balances more than offset the 6.4% increase in investment management fees. The overall average revenue margin for the first half was 65bps by comparison to 68bps last year. The division's direct costs decreased 7% resulting in an operating contribution of £29.7m (1H16: £28.8m). Allocated costs have remained relatively flat leading to a reported operating profit of £6.2 million (1H16: £5.5m).

Asset Management - financial performance

	1H17	1H16	Change
	£m	£m	%
Revenue	3.1	2.8	11%
Direct costs	(2.8)	(2.9)	3%
Contribution	0.3	(0.1)	400%
Allocated costs	(0.1)	(0.3)	67%
Operating Profit/(loss)	0.2	(0.4)	150%
Contribution margin	9.7%	(3.6%)	
Operating margin	6.5%	(14.3%)	
Headcount (number)	33	34	(3%)
FUM (£bn)	1.0	0.7	43%
Revenue Margin	72bps	78bps	

Asset Management FUM increased to £1.0bn in 1H17 (1H16: £0.7bn). Institutional business within the division has grown strongly in 1H16. Revenues grew 11% to £3.1m (1H16: £2.8m) and as a result of tight cost control the division's direct costs have reduced leading to the division moving into profit.

Financial Planning - financial performance

	1H17	1H16	Change
	£m	£m	%
Revenue	3.8	4.1	(7%)
Direct costs	(3.6)	(3.6)	-
Contribution	0.2	0.5	(60%)
Allocated costs	(2.2)	(1.4)	(57%)
Operating Profit/(loss)	(2.0)	(0.9)	(122%)
Contribution margin	5.3%	12.2%	
Operating margin	(52.6%)	(22.0%)	
Financial planners Headcount	21	29	(28%)
Revenue per financial planner (£000)	218	172	27%

Financial Planning revenues have decreased by comparison to the prior year by 7% due to the transfer of a number of investment managers who accounted for £0.7m the prior year from Financial Planning to the IMS division. On a like for like basis the underlying Financial Planning team has increased revenues 14% from £2.1m to £2.4m and EBS 8% from £1.3m to £1.4m. The direct costs of the division are flat but allocated costs increased mainly due to restructuring charges, and this has led to the division's reported loss increasing to £2.0m (1H 2016: £0.9m).

Charles Stanley Direct - financial performance

	1H17	1H16	Change
	£m	£m	%
Revenue	2.1	2.6	(19%)
Direct costs	(1.2)	(1.5)	20%
Contribution	0.9	1.1	(18%)
Allocated costs	(1.6)	(1.8)	11%
Operating Profit/(loss)	(0.7)	(0.7)	-
Revenue margin (bps)	22	30	(27%)
Contribution margin	42.9%	42.3%	
Operating margin	(33.3%)	(26.9%)	
FUA (£bn)	2.0	1.7	18%
No. of platform client accounts 30.09.16	41,071	37,046	11%

Charles Stanley Direct FuA on the platform grew 18% from £1.7 billion at 1H16 to £2.0bn at 1H17 and client take-on up some 14% with the platform now servicing some 31,125 accounts. Overall revenues, however, declined as anticipated owing to the termination in February 2016 of the contract to provide dealing services to the Fidelity platform which contributed £0.6m in the prior first half.

Core Business - cost breakdown

	1H17	1H16	Change
	£m	£m	%
Revenue	68.8	70.8	(3%)
Staff costs			
Fixed	24.6	25.4	(3%)
Variable	20.9	21.3	(2%)
Total staff costs ¹	45.5	46.7	(3%)
Other direct operating expenses	19.8	21.4	(7%)
Total direct costs	65.3	68.1	(4%)
Central costs	0.0	(0.7)	100%
Total costs	65.3	67.4	(3%)
Fixed staff cost/income ratio	35.7%	35.9%	
Variable staff cost/income ratio	30.4%	30.1%	
Total cost/income ratio	94.9%	95.2%	
Headcount (number)	898	990	

¹ Staff costs include both employee costs and those relating to Associate (self-employed) investment managers

Core Business – expenses breakdown

