Equities

15 December 2011 | 159 pages

Diversified Financials

Interesting Times – Where to Shelter in the Year of the Dragon

- **Tough —** Muted risk appetite, low liquidity, high volatility, political and fiscal uncertainty. 2012 promises to be a tough investment environment, especially for a market sensitive, cyclical sector like Diversified Financials. We focus on stock-picking.
- **Where to Focus in 2012 —** We hunt for stocks that are defensive (or, rather, less cyclical than peers), with strong or improving balance sheets, where long-term EPS growth is stronger than near-term, and where valuation metrics are attractive. Top Buys: Aberdeen, Ashmore, IG Group & ICAP.
- **Asset Managers —** We expect 2012 to be tough. Fund flow outlook is muted. AUM reduction in 2011 will have a knock on impact on revenues in 2012. The best stocks will be those that can buck AUM / revenue trends, or can manage costs to minimise the impact on the bottom line. We prefer institutional to retail stories, both for stickier AUM and less exposure to RDR execution risk.
- **InterDealer Brokers —** In 2012, we expect slowdown in OTC trading volumes, driven by the unfavourable cyclical trends (slowing growth, low confidence, low interest rates), regulatory uncertainty and near term impact of structural shift in FICC trading. In the medium/long term, the shift to flow trading and increased electronic trading should be positive for OTC volumes. We expect cost management to be a key theme for IDBs in 2012. We prefer structural winners with scale and strong non-voice broking capabilities.
- **Why we favour Aberdeen, Ashmore, IG, ICAP —** We see these as 'best in class' in their chosen fields, offering relatively defensive, long term growth and/or exposure to growth outside the Euro area, with strong/strengthening balance sheets. ADN and IG are our most favoured names. Tactically, ASHM Q2 and ICAP Q3 IMS in January may disappoint on fund flows/volumes/revenues, but we think their longer term growth stories remain intact.
- **Why we are cautious on Schroders, Jupiter, 3i and ICG —** We see these as worst positioned for range bound/volatile markets and associated low/negative retail fund flow demand and most dependent on market levels to drive earnings momentum. We don't think these are bad businesses – just ones which we see most challenged by a difficult macro environment.
- **Wild Card F&C —** Outside our key stock picks, we also highlight F&C as a "wild card" which could see significant share price accretion driven by a self-help restructuring story. Execution risk and fears that cost cuts now will be offset by revenue loss in the future keep us Neutral for now – but this is one to watch closely, in our view.
- **New Numbers, Targets and Recommendations —** For changes to ratings, target prices and numbers, please see page 2 and individual company sections.

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

Contents

Data Summary

	Rating		Target Price		Current Year Earnings Estimates		Next Year Earnings Estimates	
Ticker	**Old**	**New**	**Old**	**New**	**Old**	**New**	**Old**	**New**
ADN.L	1	1	£2.45	£2.45	p18.9	p18.9	p21.0	p21.0
ASHM.L	1	1	£3.75	£3.75	p23.3	p23.3	p28.5	p28.5
BME.MC	3	3	€18.00	€18.00	€1.81	€1.81	€1.78	€1.78
EMG.L	2	2	£1.58	£1.30	US¢18.8	US¢18.6	US¢20.3	US¢20.3
EXCr.AT	2	2	-	-	€0.32	€0.32	€0.12	€0.12
FCAM.L	2	2	-	-	p6.1	p5.5	p9.5	p9.2
GAMH.S	2	2	SFr11.50	SFr11.20	SFr0.84	SFr0.87	SFr0.89	SFr0.88
GFMN.S	2	2	-	-	US$-0.03	US$-0.03	US$0.20	US$0.20
GPW.WA	2	2	ZL44.50	ZL44.50	ZL3.14	ZL3.14	ZL3.21	ZL3.21
HGGH.L	1	1	£1.55	£1.55	p12.5	p12.5	p13.5	p13.5
HRGV.L	1	2	£5.70	£4.50	p22.9	p22.9	p25.1	p25.1
IAP.L	1	1	£5.60	£4.50	p37.5	p37.5	p40.5	p40.2
ICP.L	2	2	£2.00	£2.30	p26.3	p33.3	p33.9	p30.3
IGG.L	1	1	£5.30	£5.30	p38.5	p38.5	p41.7	p41.7
III.L	1	2	£2.75	£2.00	p-27.1	p-48.5	p27.4	p-3.2
JUP.L	1	2	£2.40	£2.30	p19.6	p19.6	p19.1	p18.7
OPFP.WA	1H	1H	ZL18.40	ZL18.40	ZL1.69	ZL1.69	ZL1.91	ZL1.91
PFG.L	3	3	£9.20	£9.20	p89.4	p89.4	p98.7	p98.7
SDR.L	2	2	£13.10	£13.10	p108.7	p108.7	p101.4	p101.4
SDRt.L	2	2	£11.10	£11.10	p108.7	p108.7	p101.4	p101.4
TLPR.L	1	2	£4.20	£3.00	£0.43	£0.43	£0.43	£0.41

Interesting Times

Investment Summary

Framework: Cautious market outlook

Volatile and range-bound. The outlook for 2012 is uncertain. For as long as Sovereign credit risk and global GDP growth concerns are front of stage, we expect equity markets to remain volatile, with little chance of a return to “normal”. A volatile, range-bound market seems the best we can hope for in the near-term.

Break out – Up or down? Resolution of Sovereign debt and European bank funding concerns would likely trigger market recovery, but the timing and efficacy of political and/or central bank action is uncertain. Set against this, global economic growth is slowing: Citi economists see the euro area falling back into recession, only modest growth for the US, and a marked slowdown in China. Given this backdrop, our view is that a sustained market recovery will be hard to maintain, and so we are bearish on outlook as we enter 2012.

Investment Timing will be crucial

Tough call. 2012 promises to be a tough investment environment, especially for a cyclical sector like Diversified Financials. We structure our thinking as follows:

- **Long term view - Hidden value.** A macro-driven, risk averse environment offers stock-picking opportunities for long term investors, in our view. We hunt for hidden value: for stocks that are defensive (or, rather, less cyclical than their peers), with strong or improving balance sheets, where long-term EPS growth is stronger than near-term, and where valuation metrics are unchallenging. Key names for us are: **Aberdeen**, **Ashmore, IG Group** and **ICAP**.
- **Short term – Timing is Important.** In a range-bound, volatile market, we believe investors need to be sensible on timing the purchase of stocks. Generally speaking, investors should seek to buy after market falls, rather than chasing into (possibly short-lived) market rallies. But investors must also be ready to adapt this strategy quickly in the event of break out from the range – be that up or down.

Stock picking

Sub-Sectors. In this note, we discuss the Diversified Financials stocks in two sub-sectors: Asset Managers and Inter-Dealer Brokers. For each, we discuss sector investment stance, drivers and screens, and highlight our key stock picks in each. However, we do not view either of these sub-sectors as better positioned than the other for 2012. We prefer instead to focus on stock specific selection.

Seeking “defensive” or “self help” financials

Most Favoured. We select those names which we believe offer the best long term earnings growth prospects, and that offer more defensive characteristics in volatile markets than their peers. These are: **Aberdeen**, **Ashmore, ICAP** and **IG Group**. We also highlight one “wildcard” self-help investment story (**F&C**) although the risks here keep us Neutral rather than buyers of the stock.

Avoiding the most cyclical names

Least Favoured. We select those stocks we see as worst positioned for volatility, and also which look most expensive vs. peers. These are **Schroders**, **Jupiter**, **3i** and **Intermediate Capital Group**. We rate these stocks Neutral and view these as the least likely to offer decent upside in a volatile market environment.

Market Risk. We expect markets to remain range bound and volatile in the near term. If we are incorrect, i.e. markets rally strongly early in 2012, then our least favoured names could well offer some of the strongest share price returns. This is a key risk to our view.

CIRA Views. For CIRA's Equity Strategists’ and Economists’ 2012 Outlook views, please see page 7.

Recommendation Summary

- **Asset Managers. Buy:** Aberdeen, Ashmore, Henderson. **Neutral:** F&C, Hargreaves Lansdown, GAM, Man Group, Jupiter, Gottex Schroders.
- **Exchanges / IDBs. Buy:** ICAP **Neutral:** Tullett Prebon, Hellenic Exchanges, Warsaw Stock Exchange. **Sell:** BME.
- **Private Equity. Neutral:** 3i, Intermediate Capital Group.
- **Consumer Finance & Other. Buy:** IG Group, Open Finance. **Sell:** Provident Financial Group.

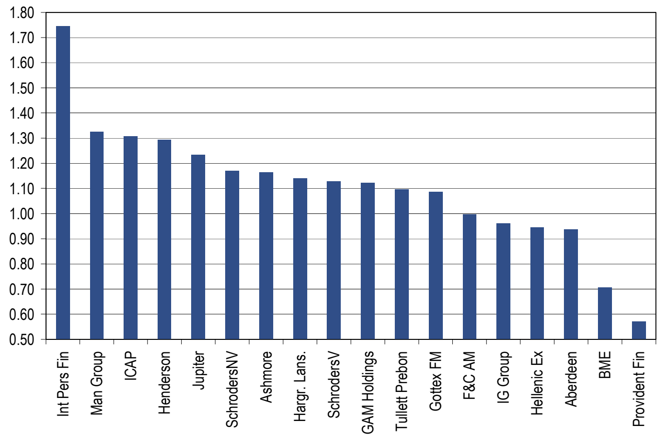
Figure 1. Summary Recommendation Table - Sorted Alphabetically

				Market	Price		Upside	Calendar Yr EPS			Calendar Year P/E			F'cast CY EPS growth		
Company	Ticker	Rec.	Currency	Value	Current	Target	%	2011E	2012E	2013E	2011E	2012E	2013E	10-11	11-12	12-13
Asset Managers																
Aberdeen AM	ADN.L	Buy	GBP	2,392	2.09	2.45	17%	18.8	19.5	22.1	11.1	10.7	9.7	28%	4%	13%
Ashmore Group	ASHM.L	Buy	GBP	2,317	3.28	3.75	14%	25.0	25.9	31.0	12.2	11.8	10.1	1%	4%	20%
F&C Asset Management	FCAM.L	Neutral	GBP	349	0.66	na	na	5.5	9.2	10.5	11.9	7.1	6.3	-6%	66%	14%
GAM Holdings	GAMH.S	Neutral	CHF	2,120	10.20	11.20	10%	0.87	0.88	1.23	11.7	11.6	8.3	-16%	1%	39%
Gottex Fund Management	GFMN.S	Neutral	CHF	88	2.75	na	na	-0.03	0.20	0.50	-89.3	13.9	5.5	-70%	-743%	155%
Hargreaves Lansdown	HRGV.L	Neutral	GBP	2,091	4.41	4.50	-2%	21.5	24.0	27.2	20.5	18.4	16.2	26%	12%	13%
Henderson Group	HGGH.L	Buy	GBP	1,175	1.07	1.55	45%	12.5	13.5	15.3	8.5	7.9	7.0	32%	8%	13%
Jupiter Fund Management	JUP.L	Neutral	GBP	1,014	2.22	2.30	4%	19.6	18.7	19.8	11.3	11.8	11.2	11%	-4%	6%
Man Group	EMG.L	Neutral	GBP	2,462	1.30	1.30	0%	18.7c	20.3c	31.3c	8.5	7.7	4.9	-31%	9%	54%
Schroders*	SDR.L	Neutral	GBP	3,533	13.02	13.10	-1%	108.7	101.4	118.0	9.8	10.5	8.9	0%	-7%	16%
Schroders	SDRt.L	Neutral	GBP		10.55	11.10	5%									
Peer Group Average							**22%**				**1.6**	**11.2**	**8.8**	**-3%**	**-65%**	**37%**
Excluding GFMN & HRGV							**27%**				**10.6**	**9.9**	**8.3**	**2%**	**10%**	**22%**
Exchanges & InterDealer Brokers																
BME	BME.MC	Sell	EUR	1,697	20.5	18.0	-12%	1.81	1.78	1.54	11.3	11.5	13.3	-2%	-1%	-14%
Hellenic Exchange	EXCr.AT	Neutral	EUR	184	2.8	na	na	0.32	0.12	0.14	8.6	23.9	19.2	-1%	-64%	24%
ICAP	IAP.L	Buy	GBP	2,132	3.42	4.50	32%	37.9	39.5	42.6	9.0	8.7	8.0	1%	4%	8%
Tullett Prebon	TLPR.L	Neutral	GBP	587	2.84	3.10	9%	43.3	40.5	42.9	6.6	7.0	6.6	-12%	2%	6%
Warsaw Stock Exchange	GPW.WA	Neutral	PLN	1,632	38.89	44.50	14%	3.1	3.2	3.1	12.4	12.1	12.6	39%	2%	-4%
Peer Group Average											**8.9**	**12.8**	**11.8**	**-4%**	**-15%**	**6%**
Consumer Finance & Other																
IG Group	IGG.L	Buy	GBP	1,692	4.66	5.30	14%	36.1	40.4	43.3	13.1	11.7	10.9	13%	12%	7%
Open Finance	OPFP.WA	Buy-H	PLN	581	10.71	18.40	72%	1.7	1.9	1.9	6.3	5.6	5.6	9%	13%	1%
Provident Financial	PFG.L	Sell	GBP	1,313	9.58	9.20	-4%	89.4	98.7	105.6	10.7	9.7	9.1	14%	10%	7%
Private Equity & Investment											Citi P/B			Forecast NAV growth		
3i Group Plc	III.L	Neutral	GBP	1,752	1.80	2.00	11%	-31.6	-14.4	42.9	0.5	0.6	0.6	-6%	-9%	-7%
Intermediate Capital Group	ICP.L	Neutral	GBP	915	2.29	2.30	0%	33.1	31.1	36.7	0.7	0.65	0.65	6%	8%	-1%

Notes: PE ratios are adjusted for surplus net cash / surplus capital where appropriate. 'H' after recommendation means 'High Risk'. Priced at 12 December, 2011
Powered by dataCentral. dataCentral is CIRA's proprietary database, which includes CIRA estimates, data from company reports and feeds from Reuters,, Datastream, First Call, IBES and Toyo Keiza. *Theoretical PE based on combined non-voting and voting shares.

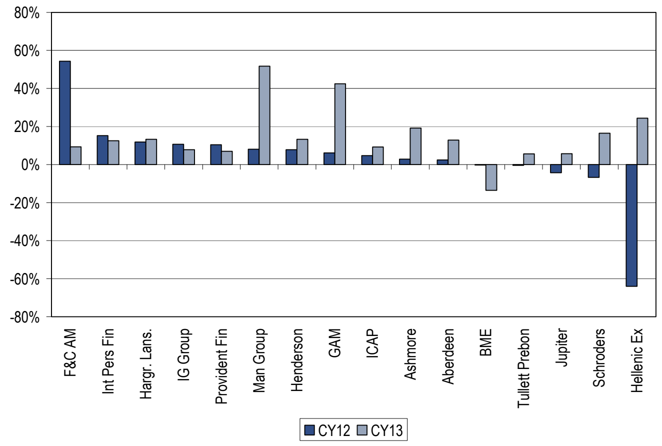
Momentum and Sensitivity

Figure 2. Diversified Financials Stocks: Market Beta over 1 Year



Source: Bloomberg

Figure 3. CY12E and CY13E EPS growth, ranked by CY12E



Source: Citi Investment Research and Analysis

Next News

Upcoming reporting / other news flow dates

Figure 4. Upcoming Reporting and Other Newsflow

Company	Date		Event
Ashmore	12-Jan		2Q Trading Statement
IG Group	17-Jan		Interims
Intermediate Capital Group	17 Jan		3Q11 IMS
Man Group	18 Jan		9mth Trading Statement (Period to December)
Jupiter Fund Management	18 Jan	*TBC*	4Q IMS
Aberdeen Asset Management	19-Jan		1Q IMS
Gottex	*25-Jan*	*TBC*	Preclose, Based on last year
3i Group	*26-Jan*	*TBC*	3Q IMS, Based on last year
London Stock Exchange	*26-Jan*	*TBC*	3Q IMS (provisional)
ICAP	*01-Feb*	*TBC*	3Q IMS, Based on last year
Hargreaves Lansdown	09-Feb		Interim Results
Deutsche Boerse	*14-Feb*	*TBC*	FY11, Based on last year
BME	*20-Feb*	*TBC*	FY11, Based on last year
Ashmore	23-Feb		1H12
Provident Financial	28-Feb		FY11
Henderson Group	29-Feb		FY11
Man Group	*01-Mar*	*TBC*	*Prelim FY11*
GAM Holdings	06-Mar		FY11
Tullett Prebon	06-Mar		Prelim FY11
Jupiter Fund Management	07-Mar		Prelim FY11
Schroders	08-Mar		FY11
F&C	15-Mar		Prelim FY11
Aberdeen Asset Management	*26-Mar*	*TBC*	Preclose, Based on last year

Source: Company Reports, CIRA estimates

Market Outlook

We include below hyperlinks to a number of recent notes that CIRA European Equity Strategy and Global Economics teams have published.

2012 Outlook pieces:

Pan-Europe Road Ahead: Backing the Barbell. This brings together macro views from strategists and micro views from each of Citi's sector teams.

2012 European Market Outlook: Barbell. Equity Market Outlook piece.

UK Market Outlook: It's Not Fair. This is our UK Equity Market Outlook piece.

Global Economic Outlook and Strategy: Prospects for Economies And Financial Markets in 2012 and Beyond. This sets out CIRA Economists' views for 2012 in Europe, the US, Japan and the Emerging Markets.

Key Themes

These notes analyse the key themes Citi expects will influence performance.

Pan-Europe — Financial Repression and Equities. This looks at one way out of the debt burden the Western world is under.

Pan-European — 3Ds & The Size Trade. This sees us becoming more positive on the mega cap part of the equity market.

UK/Pan European - CDS-Adjusted Dividends. CDS Adjusted Dividends risk adjusts the dividend yield of companies by using their own CDS.

Please contact Citi Equity Strategists and Economists directly if you would like any more details on any of these reports.

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Sector Focus

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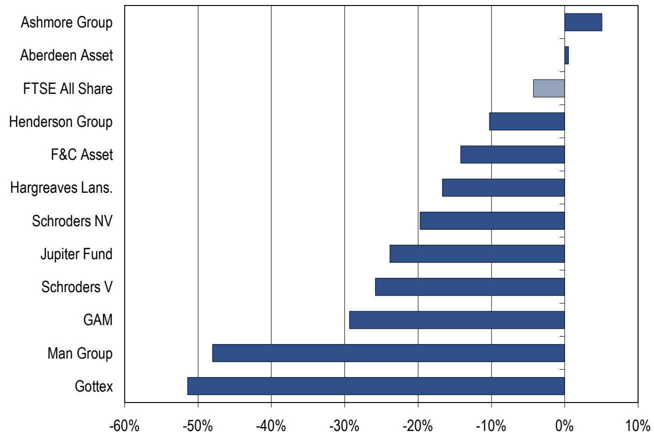
Asset Managers

Asset Managers

Look Back

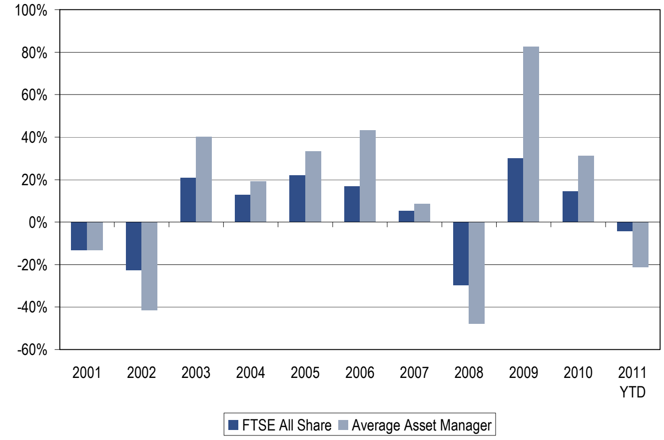
2011 has been a tough year for asset management stocks. For the group, the average total shareholder return from 1 Jan 2011 to 30 Nov 2011 was –21%, with a range from –51% (Gottex) to +5% (Ashmore). This compared to FTSE All Share -5%, STOXX -10% and MSCI EM -15% (all returns quoted in Sterling terms).

Figure 5. Asset Management Stocks: Total Return 1 Jan – 30 Nov 2011



Source: DataStream

Figure 6. Asset Managers – Total Returns 2001-2011 vs. FTSE All Share



Source: DataStream

Look Forward

We select Top Picks on defensive criteria

Defensive. We enter 2012 defensively positioned. CIRA UK Equity Strategists expect the FTSE 100 index to remain range bound (5700-4700) until a clear Euro solution can be found, after which time they forecast it could head to 6200.

Earnings Momentum. Given this backdrop, few asset managers offer compelling EPS growth in 2012, in our view. So we look instead to sustainable earnings growth stories from 2013 onwards, coupled with ability to manage margins to help protect earnings in 2012. Ashmore and Aberdeen stand out on this basis.

Quality. We look for 'defensive' asset managers, where earnings are least reliant on market returns. Strong balance sheets are also welcome, with zero or falling debt levels, and the potential to offer additional capital return to shareholders.

Hedged against recovery. 'Defensive' asset managers should fare well in volatile markets. In addition, if and when markets rally, we would expect even 'defensive' asset managers to outperform the market. As such, these stocks also provide investors with a hedge against the event of a sharp market recovery.

Valuation less important

Sector P/E looks inexpensive vs. history, with almost all asset managers looking inexpensive. In a market rally we expect the cheapest names will outperform. However, our base case is that market recovery is unlikely in the near term, given significant Euro Area political, regulatory and economic growth concerns. As such, we place less reliance on valuation than on 'defensive' characteristics.

Regulation

Regulatory risk. In the UK, the Retail Distribution Review is due to be implemented from 1 January 2013. This will significantly change the way in which retail investors can invest in funds through advisers. Proposed changes for fund platforms will not

be implemented on the same date. We expect the FSA to announce new rules for platforms in 2012, and so we see implementation as unlikely until 2014 or even 2015. We believe this will create a confusing environment for retail investors.

Retail flow risk. Our concern is that distribution confusion combined with a volatile and uncertain market backdrop will cause the volume of retail fund flows to slow further in 2013 from already subdued levels. This would be a damaging unintended outcome of RDR, most likely affecting those with the most significant UK retail franchises, or the most reliance on UK retail for future growth.

M&A

M&A outlook. We expect banks to continue to be net sellers of asset management businesses in 2012. We see two key drivers of this: i) Proposed Volcker rules that will make it difficult for banks to own many asset management businesses, and ii) 'Distressed' sales where banks seek to boost short term capital ratios through asset sales. It is our view that a good traditional asset management business would, in the long term, boost bank capital ratios by generating high ROE returns. We therefore view the quality of bank asset sales with caution.

Conclusion

Introducing…The Matrix

Summary investment approach. We favour the "most defensive" asset managers. Our key criteria: we prefer institutional to Retail AUM, strong fund flows to reliance on investment returns, high operating margins to low. Almost all asset managers are cheap vs. history, so we focus on those that offer the most defensive growth and earnings profile.

In the matrix below, we highlight the different "defensive" characteristics we look at in this report (pages 14 to 27), summarising with ticks and crosses the overall conclusion on each criterion for each stock.

Figure 7. Asset Managers – ranked by Defensive characteristics, in order of preference from Left to Right

DEFENSIVE CHARACTERISTIC	Reference	Aberdeen	Ashmore	Henderson	F&C AM	Harg Lans	GAM	Man Grp	Jupiter	Gottex	Schroders
Below 1.0 Beta	Figure 9	☑			☑						
Institutional > 50% AUM	Figure 10	☑	☑	☑	☑		☑			☑	☑
Asia & EM > 20% client AUM	Figure 13	☑	☑					☑			☑
Flow driven, strong AUM growth	Figure 36		☑			☑					
Rising % of Lipper top quartile funds	Figure 37	☑		☑							
Falling % of Lipper bottom quartile funds	Figure 38	☑	☑	☑	☑				☑		
Positive EPS momentum 2011	Figure 43	☑	☑			☑					
Citi 2012E EPS > Consensus 2012E EPS	Figure 42	☑		☑	☑						
Positive Management Fee revenue growth 2012E	Figure 46	☑	☑	☑		☑					
Above average CY12E operating margin	Figure 49	☑	☑			☑			☑		
Above average CY12E Var Staff Costs % Costs	Figure 51		☑	☑			☑		☑	☑	
Below average CY12E Comp to Revenue ratio	Figure 50	☑	☑			☑		☑	☑		
Above average FY12E net cash % equity	Figure 55		☑			☑				☑	☑
Improving net cash % equity, FY09-FY12E	Figure 55	☑		☑	☑				☑		
High probability of additional Capital Return		☑					☑	☑			
Above average discount valuation vs. 5Y average	Figure 57	☑		☑	☑		☑	☑			
M&A Risk - Buyer		☒	☒								
Regulatory Risk - RDR		☒		☒		☒			☒		☒
Simple Count (☑= 1, ☒=-1)		**11**	**9**	**7**	**6**	**5**	**4**	**4**	**4**	**3**	**2**
Company Section Page Reference		**48**	**53**	**68**	**59**	**63**	**130**	**94**	**88**	**134**	**104**

Source: Citi Investment Research and Analysis

Key Charts

We set out the key data and analysis supporting our investment conclusions / stock picks on pages 14 to 27 below.

Market Sensitivity

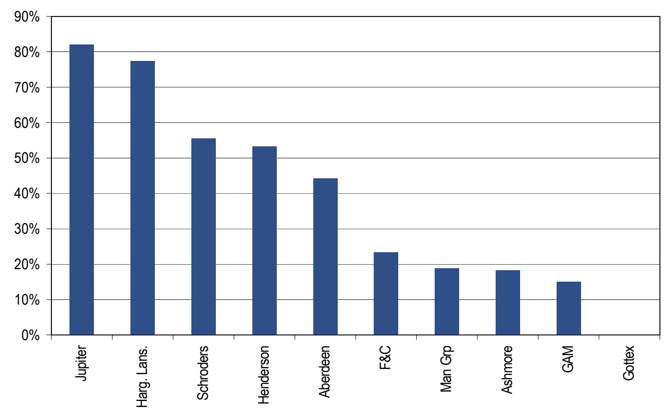
Below 1.0 Beta

In their recent note "UK Market Outlook – It's Not Fair", CIRA Strategists set out a range of possible FTSE 100 outcomes. These range from 3510 (Euro break up, negligible chance) to 7290 (no Euro break up, de-leveraging and fiscal austerity across Europe, slow economic growth for an extended period).

We expect markets to be range bound and volatile until the Eurozone crisis is resolved, with the shadow of slowing global growth overshadowing even this. We expect retail fund flows to remain subdued / negative in this environment.

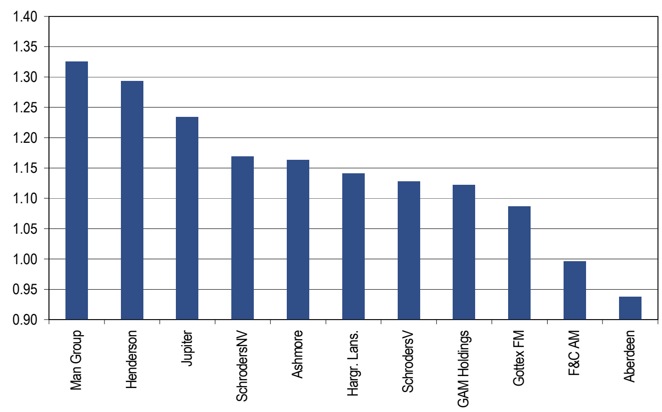
AUM mix will influence how each fund manager responds to this environment.

Figure 8. Asset Managers, ranked by Equity % AUM



Source: Company Reports and CIRA Estimates. All data at end September 2011 except GAM, Henderson, Hargreaves Lansdown and Henderson end June 2011

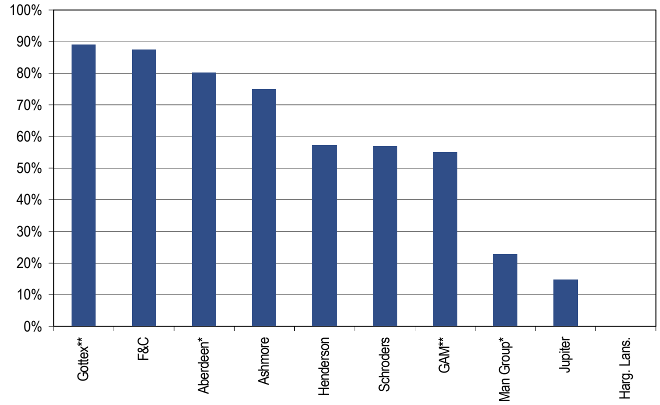
Figure 9. Asset Managers, ranked by Beta (calculated over 12 months)



Source: Bloomberg

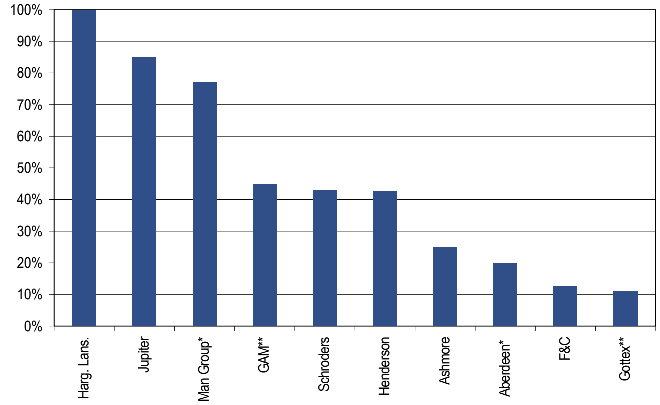
AUM Mix

Figure 10. Asset Managers, ranked by Institutional % AUM



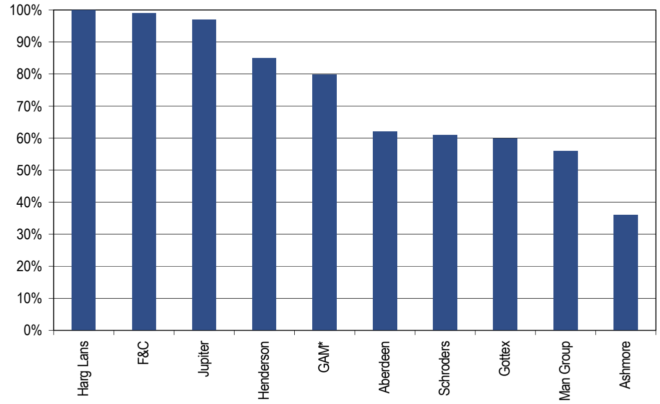
Source: All at end September 2011 and Company Data, except * Sep 11 Citi estimates, ** Jun 11 Company Reports

Figure 11. Asset Managers, ranked by Retail % AUM



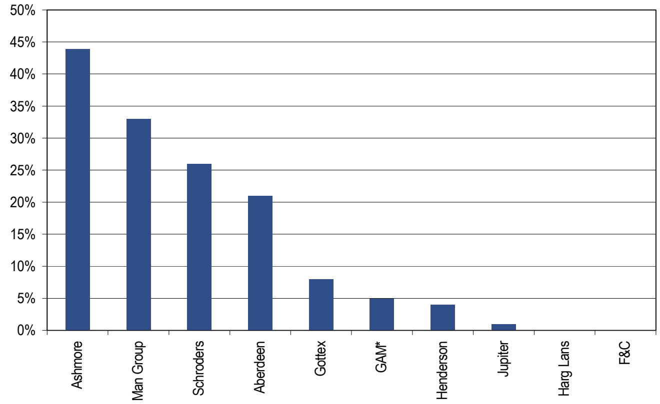
Source: Company Reports and CIRA Estimates

Figure 12. Asset Managers, ranked by clients in UK & Europe % AUM



Source: Company Reports and CIRA Estimates

Figure 13. Asset Managers, ranked by clients in Asia & EM as % AUM



Source: Company Reports and CIRA Estimates

UK Retail Fund Flows

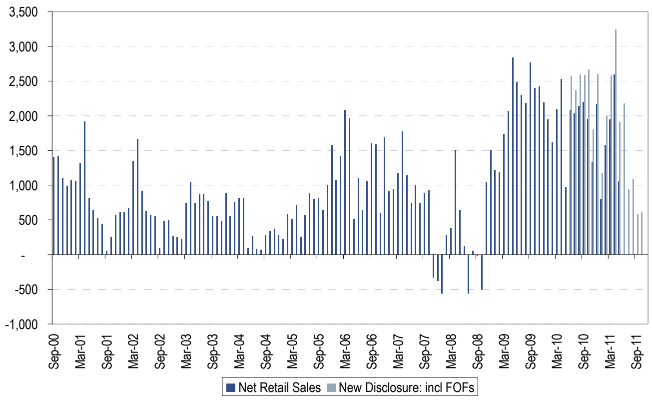
Most relevant for Jupiter, Hargreaves Lansdown, Henderson, Schroders. Some limited relevance for F&C, Aberdeen.

Slower flows, worst in equities

Slower, but not negative yet. Overall, retail UK mutual fund flows have remained resilient (Figure 14). Encouragingly, lower net flows reflect lower gross retail inflows rather than more redemption activity (Figure 15). We believe UK net retail flows may continue modestly positive if a rise in redemptions can be avoided. Low interest rates and lack of alternative investment opportunities should help, for now.

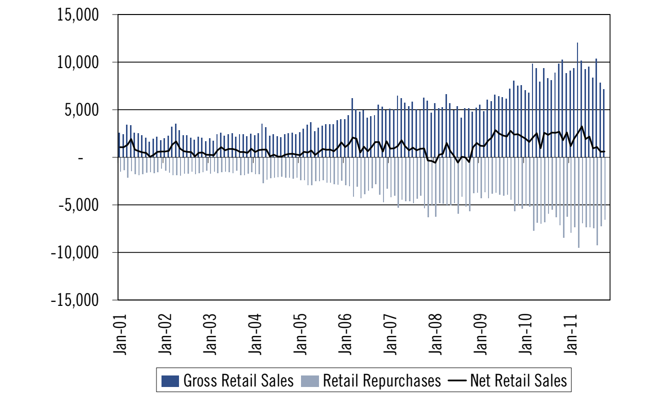
Detail. Within this overall benign picture, the worst outflows have been from equity funds (Figure 16), in particular European Smaller Companies and UK All Companies. Bond funds have seen a recovery in net inflows in recent months (Figure 17) – primarily into Strategic Bond funds. Balanced fund net inflows have fallen, but remain higher than pre-2010 levels, reflecting the absolute growth in this sector (Figure 18). Property fund flows remain subdued, with no signs of any sort of return to the flow heyday of 06/07 or 09/10 (Figure 19).

Figure 14. Net Retail Sales of UK Mutual Funds Sep 00 – Oct 11 (£m)



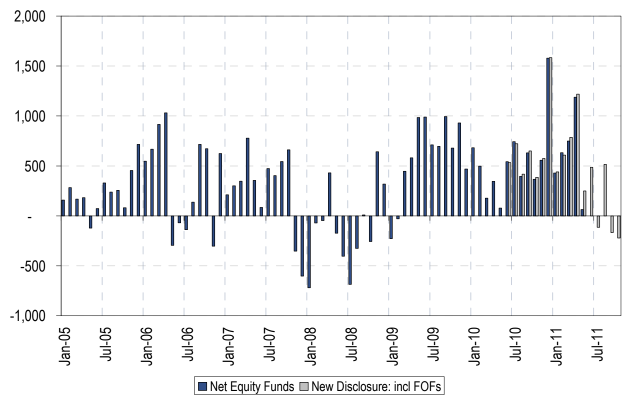
Source: Investment Management Association

Figure 15. Gross Retail Sales of UK Mutual Funds Sep 00 – Oct 11 (£m)



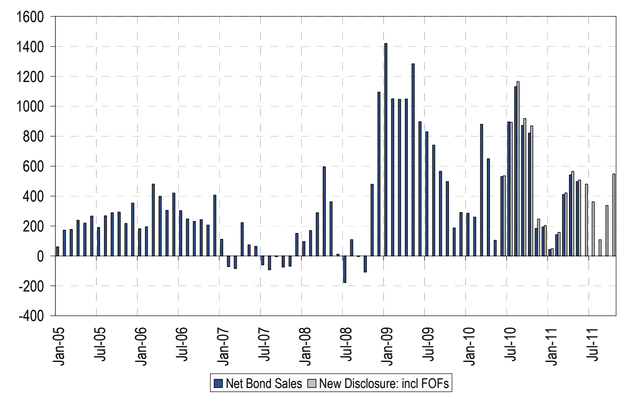
Source: Investment Management Association

Figure 16. Net Retail Sales of Equity Mutual Funds Jan 05 – Oct 11 (£m)



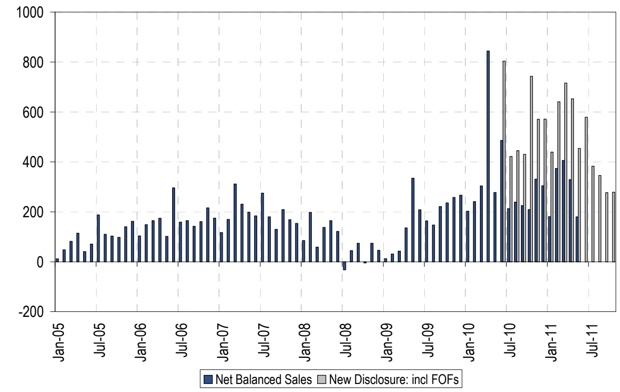
Source: Investment Management Association

Figure 17. Net Retail Sales of Bond Mutual Funds Jan 05 – Oct 11 (£m)



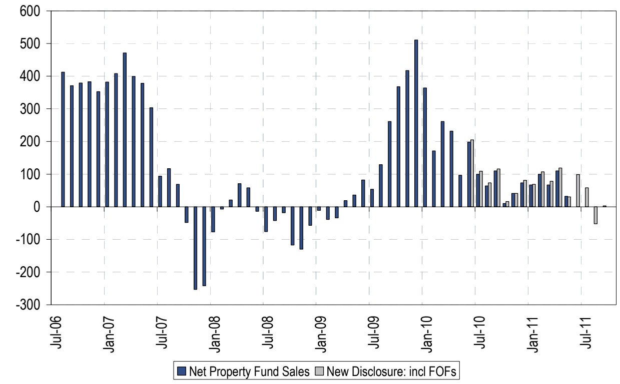
Source: Investment Management Association

Figure 18. Net Retail Sales of Balanced Funds Jan 05-Oct 11 (£m)



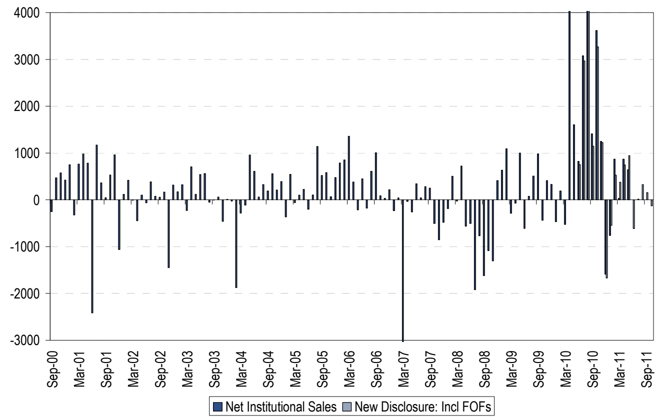
Source: Investment Management Association

Figure 19. Net Retail Sales of Property Mutual Funds Jan 05-Oct 11 (£m)



Source: Investment Management Association

Figure 20. Net Institutional Sales of UK Mutual Funds (£m)



Source: Investment Management Association

Figure 21. Best and Worst Selling Funds in October 2011

£m	Net retail sales	Net inst sales	Total net sales
Top 5 Best Selling Fund Types			
£ Strategic Bond	237.8	-9.3	228.4
£ Corporate Bond	177.3	74.8	252.1
Cautious Managed	169.6	1.1	170.7
Balanced Managed	133.0	93.4	226.4
Global Emerging Markets	83.4	-12.1	71.3
Bottom 5 Worst Selling Fund Types			
Specialist	-25.5	-41.7	-67.2
Absolute Return - UK	-73.8	70.9	-3.0
Europe Excluding UK	-75.6	21.2	-54.3
North America	-95.2	-1.6	-96.8
UK All Companies	-256.3	-173.8	-430.1

Source: Investment Management Association

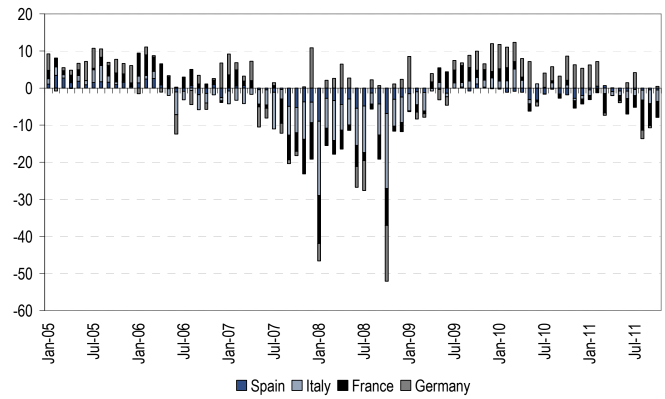
European Retail Fund Flows

Most relevant for Schroders, Henderson, Aberdeen.

Negative flows, worst in equities

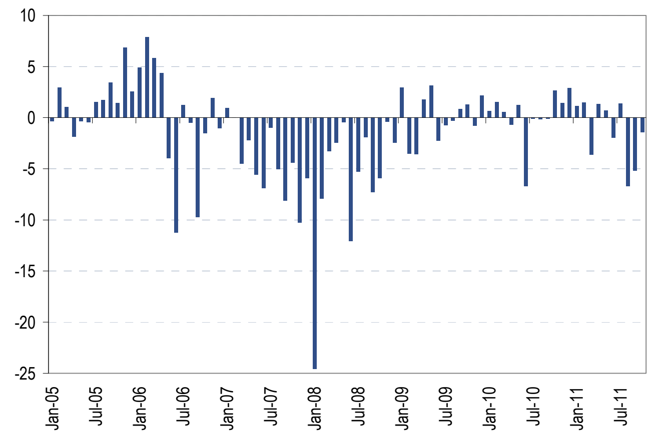
Negative flows, worst in France and Italy. Mutual fund flows have been negative since Q1 2011. Unlike in the UK, flows turned significantly negative 2008 / 09 and have struggled to recover since. We attribute this to differences in fund distribution channels, investment culture and banks' balance sheet strength. We see little incentive for European Banks to encourage investors to invest in third party funds, and plenty to encourage investors to exit funds and invest in bank savings products instead. We expect negative fund flow trends to continue into 2012.

Figure 22. European fund flows (excl money market) Jan 05-Oct 11 €bn



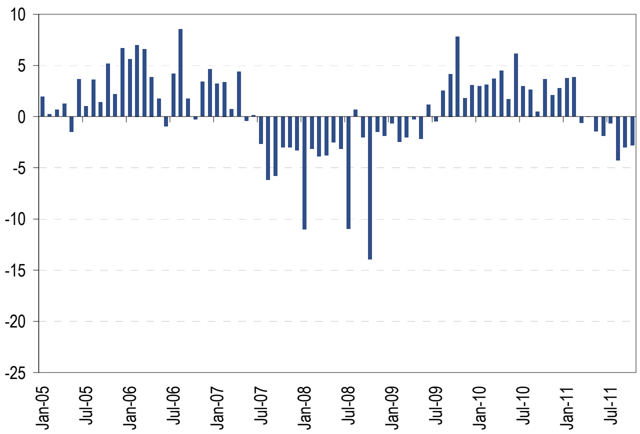
Source: Citi Investment Research and Analysis.
Citi equity strategists' combination of individual country mutual fund statistics

Figure 23. European Equity Mutual Fund flows, Jan 05-Oct 11 €bn



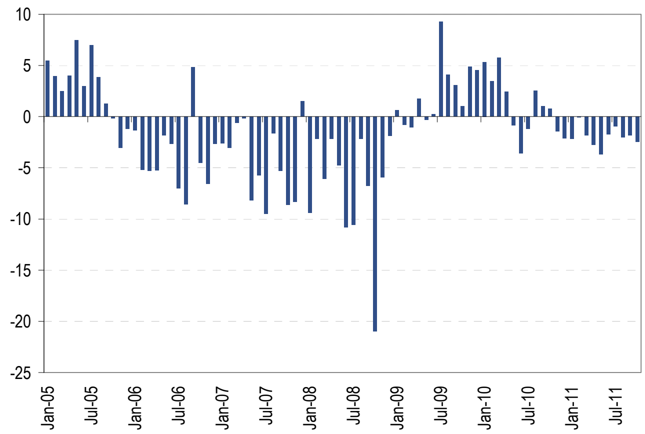
Source: Citi Investment Research and Analysis.
Citi equity strategists' combination of individual country mutual fund statistics

Figure 24. European Balanced Mutual Fund flows, Jan 05-Oct 11 €bn



Source: Citi Investment Research and Analysis.
Citi equity strategists' combination of individual country mutual fund statistics

Figure 25. European Bond Mutual Fund flows, Jan 05-Oct 11 €bn



Source: Citi Investment Research and Analysis.
Citi equity strategists' combination of individual country mutual fund statistics

Global Hedge Fund Flows

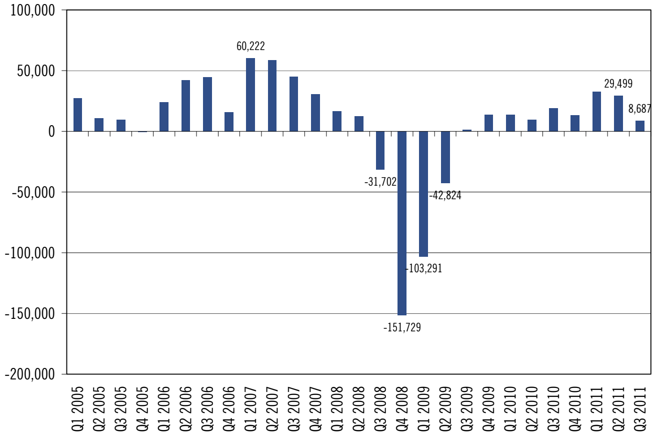
Most relevant for Gottex, GAM, Man Group.

No recovery yet

Nascent recovery. Hedge fund flows turned positive in late 2009, as investor appetite for absolute return funds finally outweighed risk aversion post-Madoff and the 2007/08 credit crunch. However, flow levels remained modest and focused on single manager funds, not funds of hedge funds.

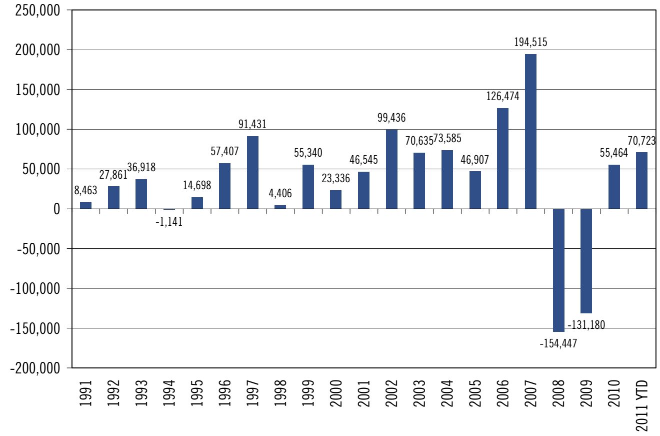
Cut off. But even this modest recovery now seems to have been cut off, as the latest financial crisis has once again led investors to question whether hedge funds truly can deliver absolute returns, leading to more caution and reluctance to invest.

Figure 26. Quarterly Hedge Fund Flows, Q1 2005 – Q3 2011



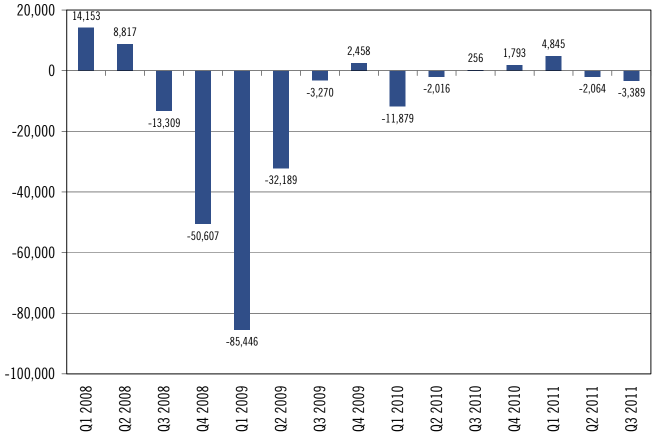
Source: HFR Industry Reports © HFR, Inc. www.hedgefundresearch.com.

Figure 27. Annual Hedge Fund Flows, 1991 2011 YTD



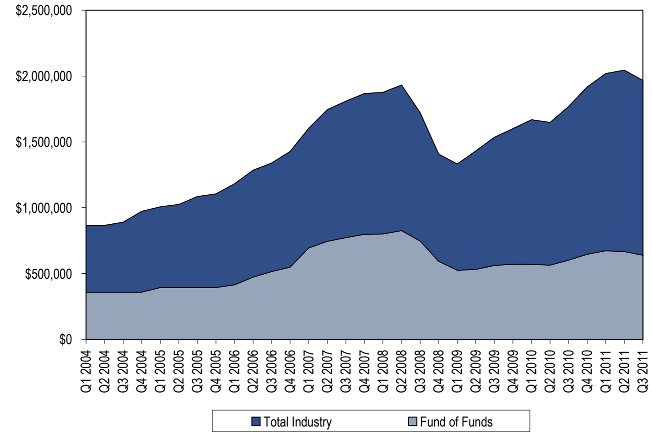
Source: HFR Industry Reports © HFR, Inc. www.hedgefundresearch.com.

Figure 28. Quarterly Fund of Hedge Fund Flows, Q1 2008 – Q3 2011



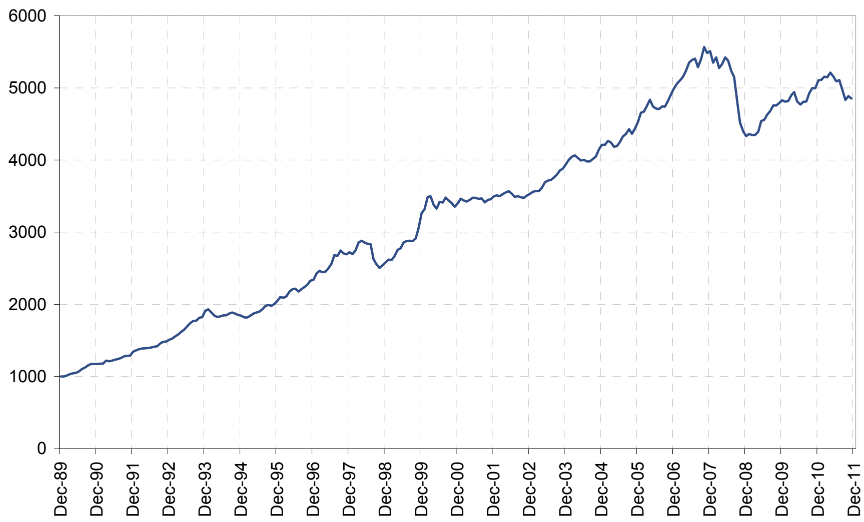
Source: HFR Industry Reports © HFR, Inc. www.hedgefundresearch.com.

Figure 29. Hedge Fund Assets, Q1 2004 – Q3 2011



Source: HFR Industry Reports © HFR, Inc. www.hedgefundresearch.com.

Figure 30. HFRI Fund of Funds Composite Index (NAV, Dec 1989=1000)



Source: HFR (Hedge Fund Research, Inc) © 2011, www.hedgefundresearch.com

Emerging Market Fund Flows

Most relevant for Ashmore, Aberdeen.

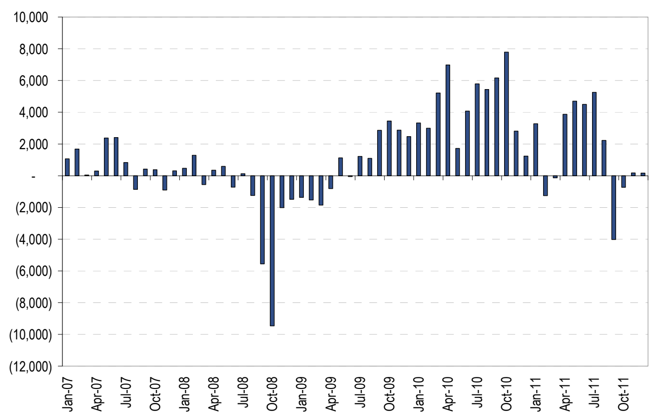
Flows have slowed, but we remain optimistic for 2012

Equity pull back. After 2 years of strong inflows, 2011 has seen two distinct periods of significant net fund withdrawal from Emerging market equity funds. These have co-incided with periods of market falls in Emerging Markets.

Citi remains constructive on EM equities for next year, as discussed in our recent 2012 Outlook. We believe EM equities will be supported by declining inflation and interest rates, solid EM economic growth of around 5%, and attractive valuations. Our end-2012 target on MSCI GEMs is 1,225, a gain of 25-30% from current levels.

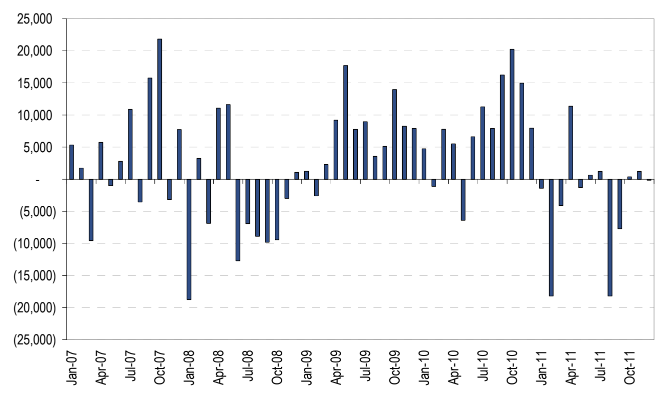
Debt subdued. EM Bond fund flows have been subdued in H2 2011. Currency weakness and widening spreads have affected investment returns, and also risk appetite for new fund flows. However, investors remain under-allocated to this asset class in our view, and we believe the longer term flow growth story is still intact.

Figure 31. Global Bond Fund Flows – into Emerging Market funds $m



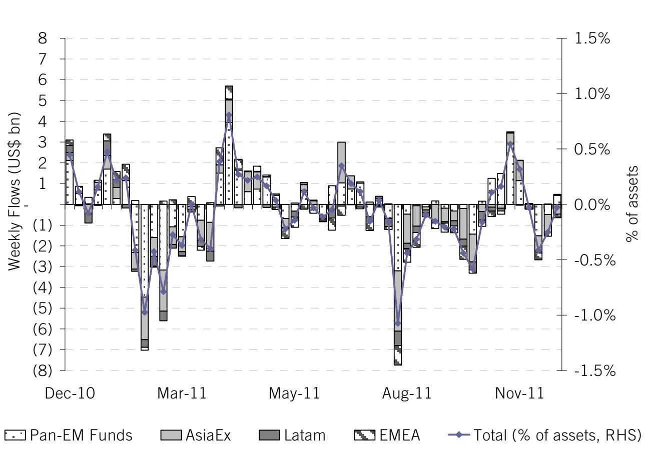
Source: EPFR Global

Figure 32. Global Equity Fund Flows – into Emerging Market funds $m



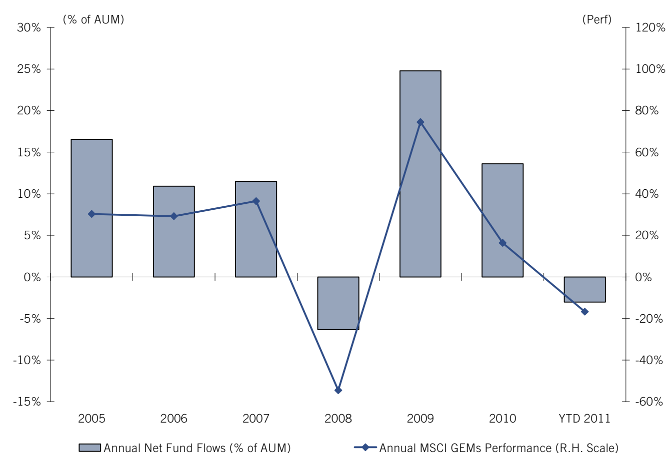
Source: EPFR Global

Figure 33. Emerging Market Equity Fund Flows – Weekly YTD $bn



Source: EPFR Global

Figure 34. Emerging Market Equity Fund Flows – Annual %



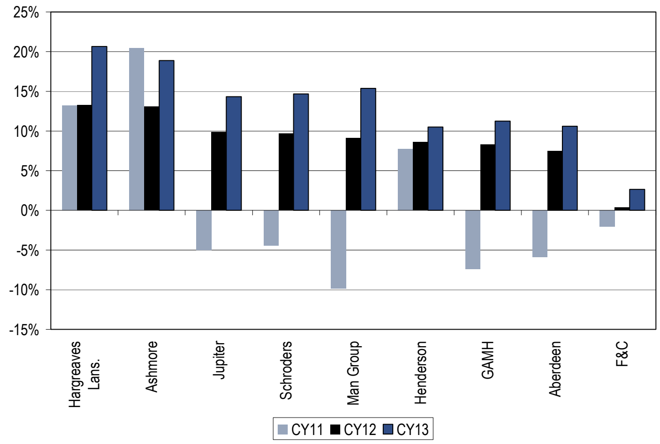
Source: EPFR Global

AUM Growth

Flow driven, strong AUM growth

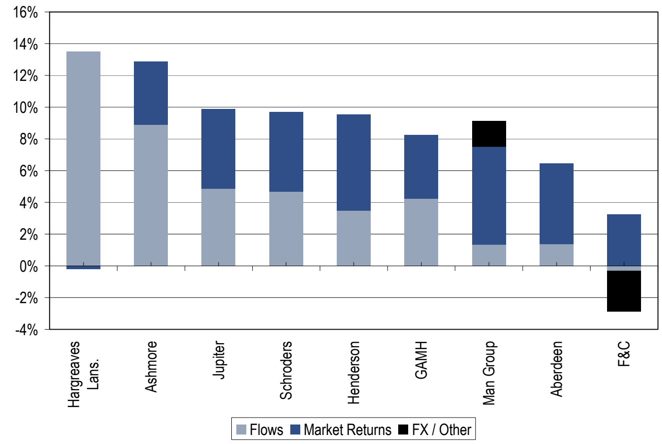
We seek to differentiate between stocks where AUM growth is more dependent on fund flow forecasts than on market return assumptions. We prefer those names with greater reliance on the former, as we see that as more defensive. We highlight **Hargreaves Lansdown** and **Ashmore** where we forecast particularly flow-driven, good levels of AUM growth.

Figure 35. Forecast AUM growth, CY11-CY13E, ranked by CY12E



Source: Citi Investment Research and Analysis

Figure 36. Forecast CY12 AUM growth, split into flows, markets, FX



Source: Citi Investment Research and Analysis

Relative investment returns are often a good indicator of fund flows – asset managers with better performance track records should, all other things being equal, see better fund flows and so revenues. They are also a good indicator, in our view, of the degree of reliance investors should place on the proportion of AUM growth driven by investment return assumptions.

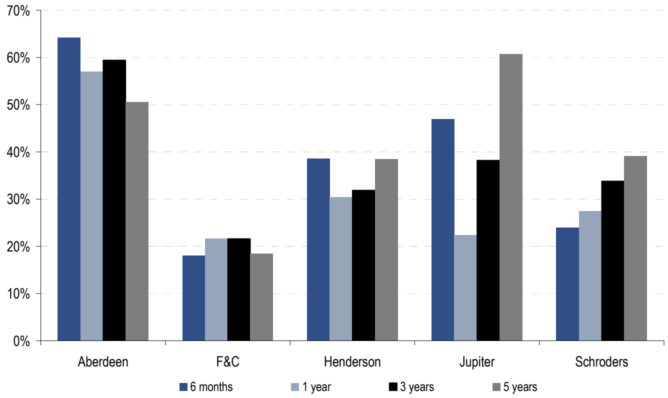
Rising % of Lipper top quartile funds

Figure 37 shows the proportion of Lipper tracked funds for Aberdeen, F&C, Henderson, Jupiter and Schroders that were ranked top quartile at end October 2011. Comparing this to the same data at end April 2011 (Figure 39) shows how **Aberdeen** and **Henderson** have improved their performance records over the last six months. We view the proportion of funds ranked top quartile as a good leading indicator of future gross inflow trends.

Falling % of Lipper bottom quartile funds

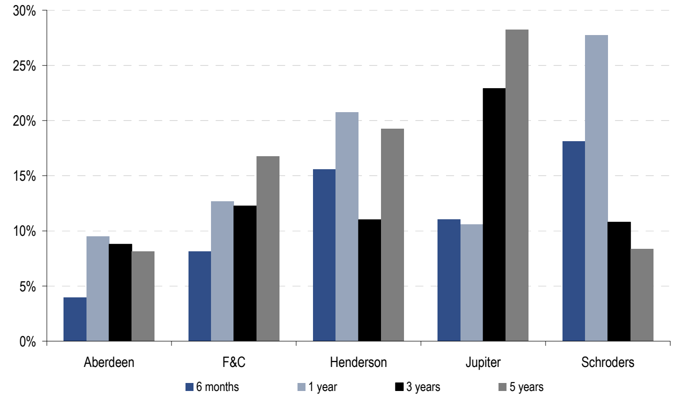
Figure 38 shows the proportion of funds that are ranked 4th quartile at end October for each manager. Comparing this to the same data at end April 2011 (Figure 40) shows how this has improved for all but **Schroders**. We view the proportion of funds ranked bottom quartile as a good leading indicator of future gross outflows.

Figure 37. Percentage of Lipper tracked funds ranked top quartile - Oct



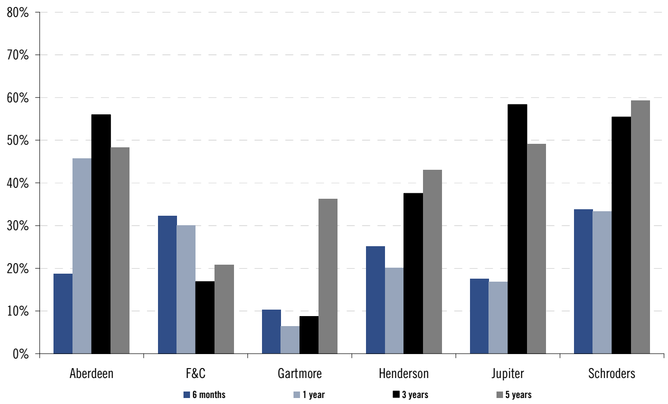
Source: Lipper Data, as at end October 2011

Figure 38. Percentage of funds ranked bottom quartile – October



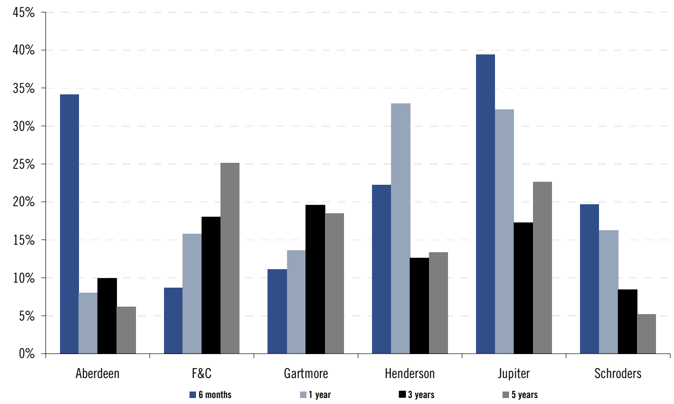
Source: Lipper Data, as at end October 2011

Figure 39. Percentage of Lipper tracked fund ranked top quartile - April



Source: Lipper Data, as at end April 2011

Figure 40. Percentage of funds ranked bottom quartile – April



Source: Lipper Data, as at end April 2011

Earnings Growth

Quality EPS Momentum

Most important. In a market when most stocks look "cheap", earnings growth is the most important stock differentiator, in our view. Here, we focus not just on the scale of growth, but also momentum, quality and sensitivity.

In other words – we seek out those companies where we see good earnings growth, with upgrade potential, where the drivers of growth are higher quality (e.g. fund inflows over market returns, management fees over performance fees), and where companies have the ability to protect the bottom line (e.g. through strong pricing power, cost flexibility, operating margin expansion).

We explore these dynamics in Figure 41 to Figure 51. Our key conclusions are:

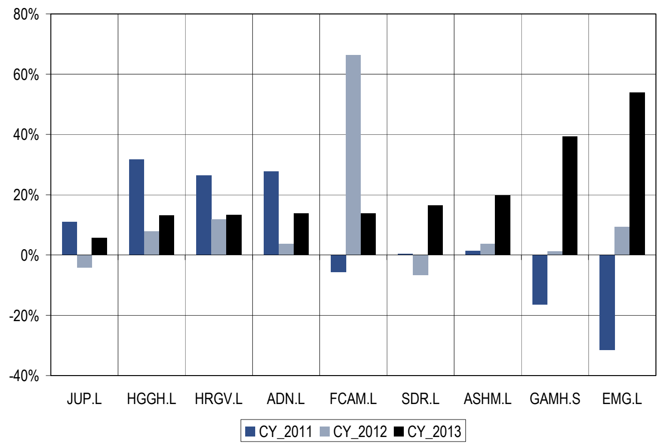
Best: Ashmore, Aberdeen

Best for long term growth: Ashmore, Aberdeen. We believe these two asset managers offer strong 2013E EPS growth coupled with stable EPS in 2011E and 2012E. See Figure 41. Both offer revenue growth that is more management than performance fee driven (Figure 46) and clear positive momentum from CY2012E to CY2013E, in our view (Figure 42).

Downside risk: Man, GAM

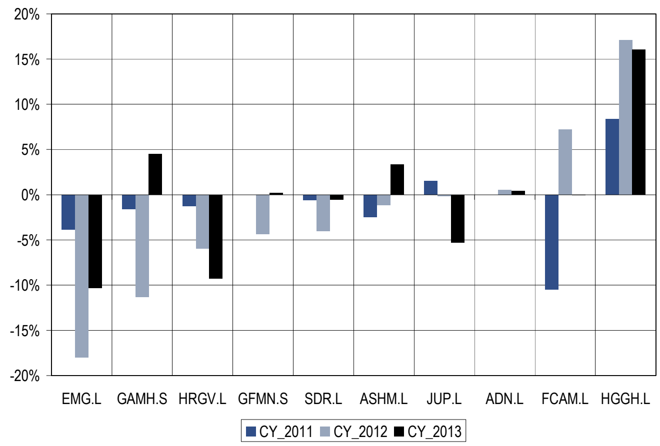
Greatest EPS downgrade risk: Man Group, **GAM**. Citi forecasts are lower than consensus for most names. We believe consensus investment return and fund flow expectations are too positive. Man Group and GAM saw amongst the largest 2011 EPS downgrades, and we expect this to continue in 2012. See Figure 42, Figure 43.

Figure 41. Ranked by Citi EPS growth forecasts, CY 2013E



Source: Citi Investment Research and Analysis

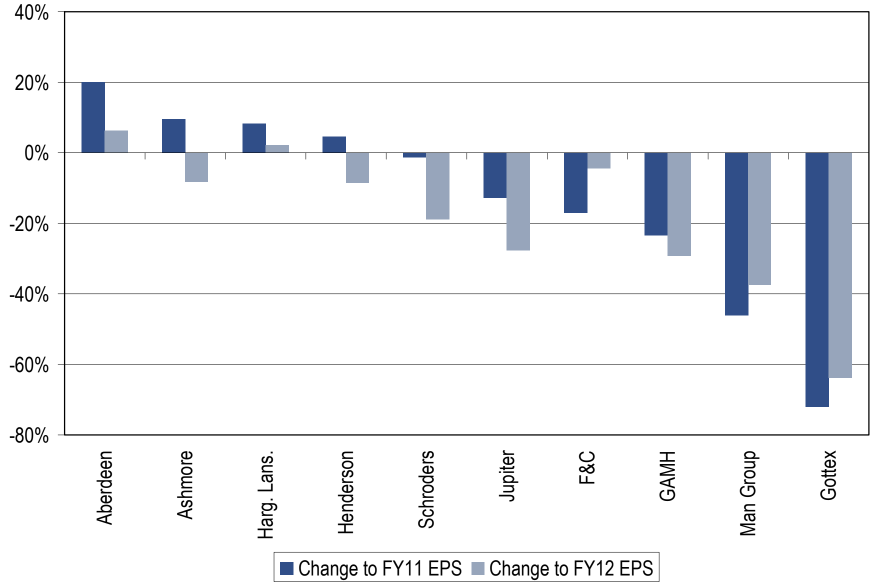
Figure 42. Ranked by Citi vs. Cons EPS growth forecasts, CY 2012E



Source: Citi Investment Research and Analysis. Consensus source: IBES

Positive EPS momentum in 2011

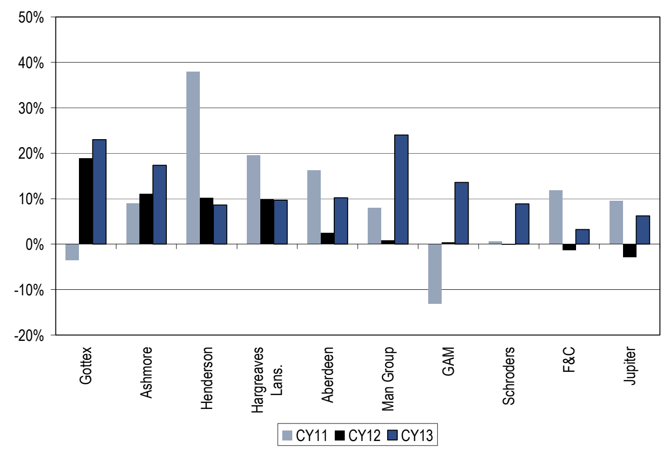
Figure 43. Percentage change in Consensus FY11 and FY12 EPS forecasts, 1 Jan to 6 Dec 2011



Source: Citi Investment Research and Analysis. Consensus source: IBES

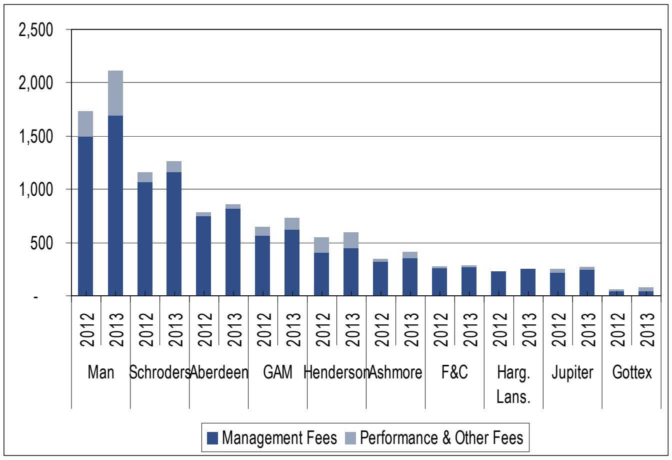
Revenue Growth

Figure 44. Asset Managers ranked by CY12E Revenue Growth



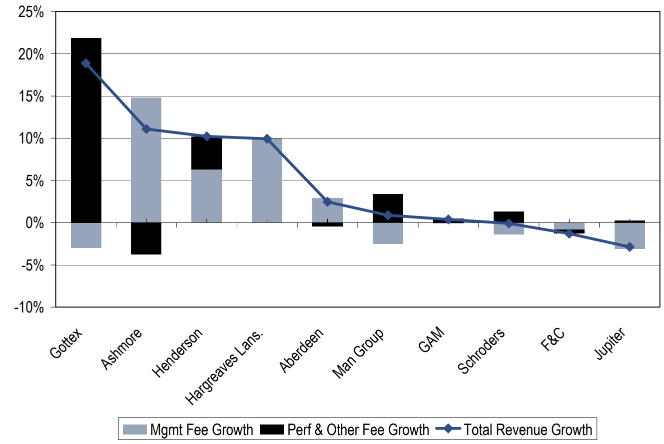
Source: Citi Investment Research and Analysis

Figure 45. Asset Managers Forecast Revenue split into Mgmt and Perf



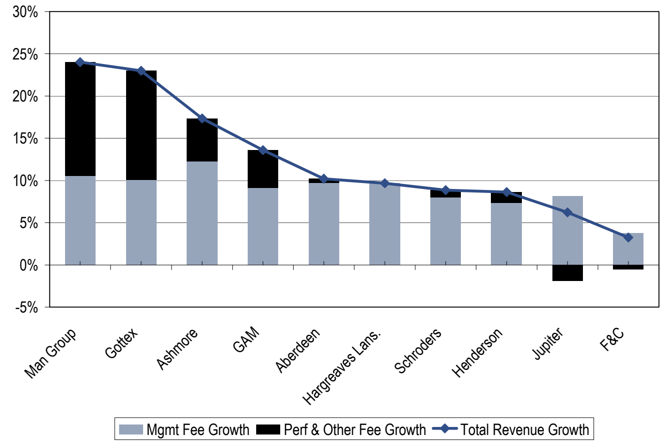
Source: Citi Investment Research and Analysis

Figure 46. CY12E Revenue growth split: management/performance fees



Source: Citi Investment Research and Analysis

Figure 47. CY13E Revenue growth split: management/performance fees



Source: Citi Investment Research and Analysis

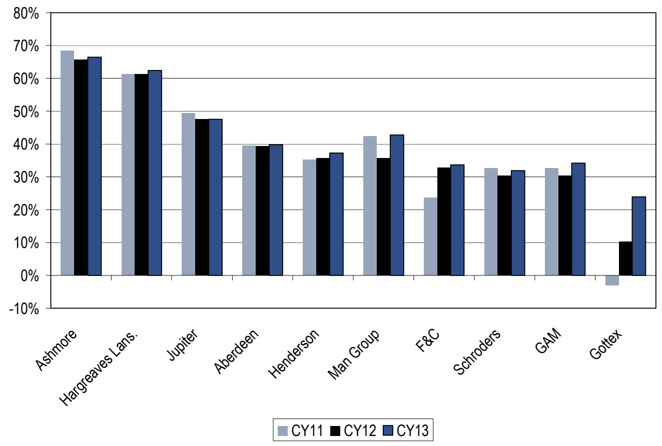
Profitability

We look for ability to flex costs to manage PBT trends

Falling revenues. 2012 looks set to be a revenue-falling environment for asset managers. With that in mind, we prefer to invest in asset managers where we see the greatest potential for management to “pull levers” to manage profit growth.

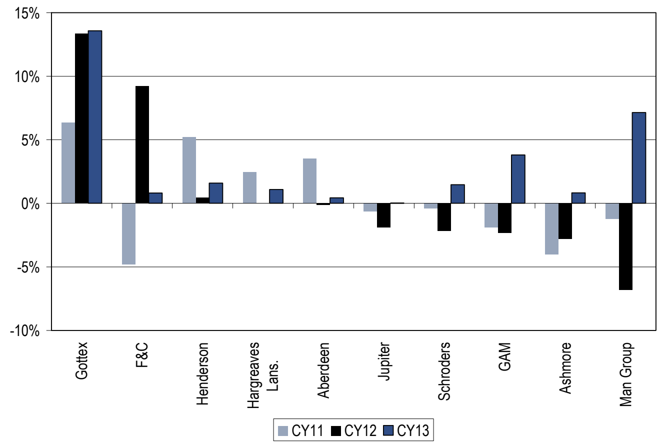
The charts below show our forecasts for each asset manager’s CY12 operating margin, and expansion in operating margins CY11 – CY13. In general, we prefer those names with absolutely higher margins, and the strongest forecast expansion.

Figure 48. Asset Managers: ranked by forecast CY12E operating margin



Source: Citi Investment Research and Analysis

Figure 49. Ranked by forecast CY12E operating margin expansion

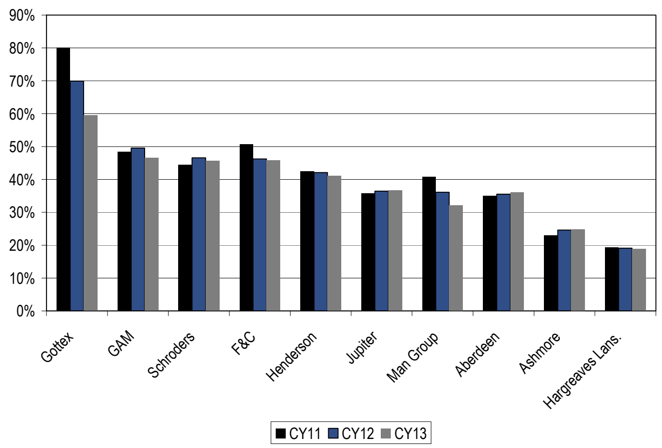


Source: Citi Investment Research and Analysis

Variable Staff Costs % Total Costs

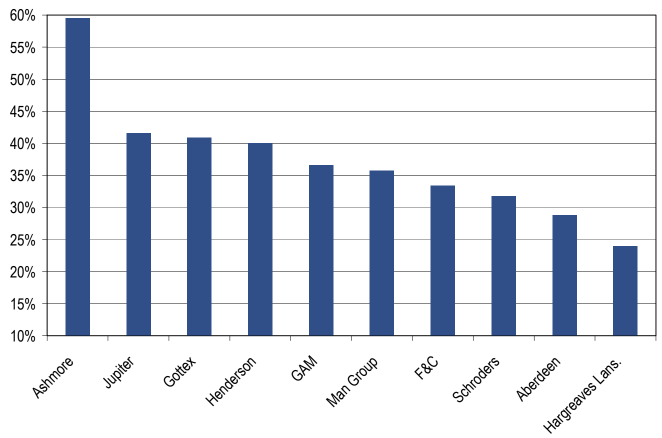
Figure 50 and Figure 51 show Citi forecast CY12 Compensation Cost to Revenue ratios, and last reported (H1 or FY 2011) Variable Staff Costs as a % of Total Costs. We prefer those names with the highest proportion of Variable Staff Costs, as this will be where there is the greatest potential to flex cost bases, in our view. We highlight **Ashmore** as standing out from its peers on this metric.

Figure 50. Asset Managers – ranked by forecast CY12E Comp / Rev ratio



Source: Citi Investment Research and Analysis

Figure 51. Asset Managers – ranked by variable staff cost % total cost



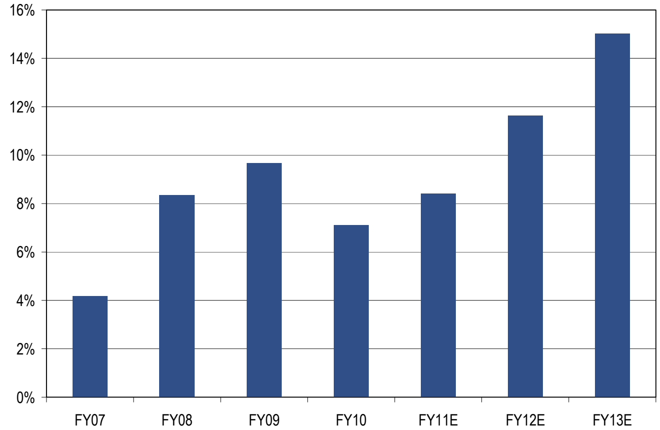
Source: Company data, CIRA. Based on last reported data. Where company data is not available, we have assumed that 50% of staff costs are variable.

Balance Sheet Strength

Net Cash % Market Value

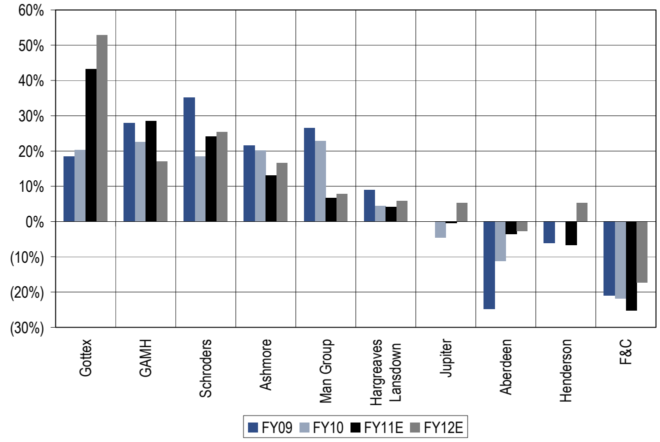
Capital strength (1). In volatile market conditions, we prefer "safer" asset managers where there is a strong balance sheet. The sub-sector enters 2012 in a much stronger collective net cash position % market value than the 2007/08 crisis, as Figure 52 shows. This is reassuring for valuation support.

Figure 52. Asset Managers – Average Net Cash % Market Value



Source: Citi Investment Research and Analysis

Figure 53. Asset Managers Ranked by FY11E Net Cash % Market Value

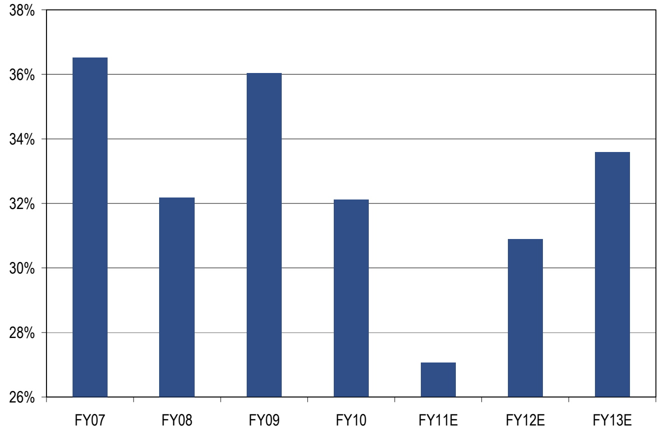


Source: Citi Investment Research and Analysis.
Net cash figures adjusted to include perpetual capital securities as debt for Aberdeen and Man. Surplus capital figures used instead of net cash for Schroders.

Net Cash % Equity

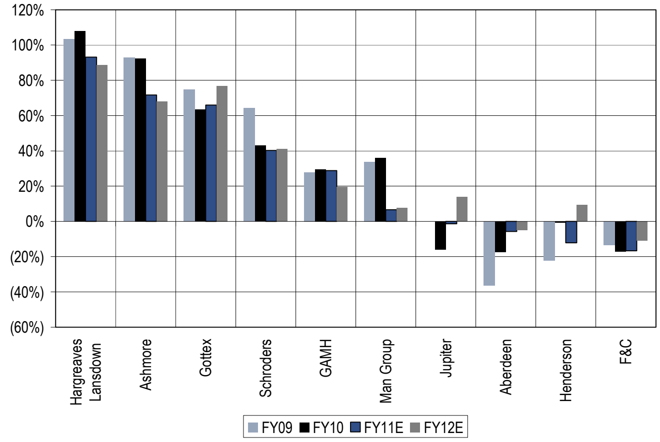
Capital strength (2). The collective net cash position % equity is actually lower now than it was before the 2007/08 crisis (see Figure 54). However, breaking this down into the component companies provides reassurance. Figure 55 shows that net cash % equity has typically fallen only for the strongest balance sheet stocks. The weakest balance sheet stocks have actually seen (or we forecast they see) material improvement from FY09: e.g. Jupiter, Aberdeen, Henderson.

Figure 54. Asset Managers – Average Net Cash % Equity



Source: Company Data, Citi Investment Research and Analysis

Figure 55. Asset Managers Ranked by FY11E Net Cash % Equity



Source: Citi Investment Research and Analysis
Net cash figures adjusted to include perpetual capital securities as debt for Aberdeen and Man. Surplus capital figures used instead of net cash for Schroders.

Capital return. We do not anticipate significant EPS growth in 2012 for the asset management group. In this environment, we favour stocks that offer the potential for additional capital return – e.g. share buybacks, higher dividend payouts etc. Figure 55 shows that Hargreaves Lansdown and Ashmore have the highest net cash balances as % equity of this group. HL habitually pays out 90% to 95% earnings. Ashmore has tended to reinvest its surplus cashflow in M&A or Organic growth.

Valuation

All cheap…

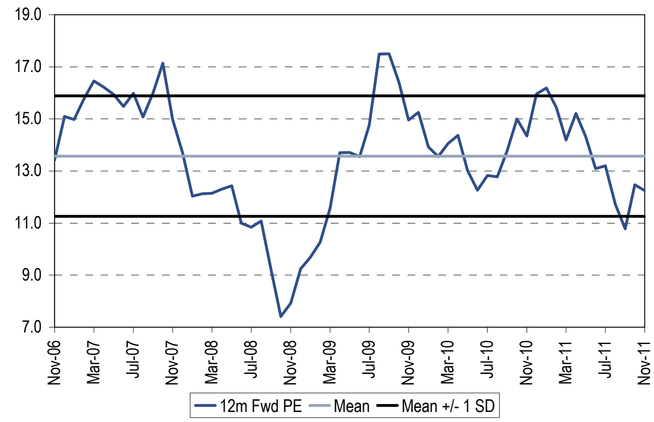
Inexpensive vs. history. As a group, asset managers are trading below average 12m forward PE multiples, although they have bounced off recent support levels (one standard deviation below mean).

…but some more than others

Figure 57 shows the 12 month forward PE for each of the asset managers compared to the 5 year average, expressed in units of standard deviation. It shows a wide range of under valuation, from almost none (Ashmore) to 1.4 units of standard deviation (Man Group).

It is our view that, in volatile, risk averse markets, valuation in itself is unlikely to be a sufficient catalyst to move a share price appreciably. However, it remains a useful component of our analysis tool pack.

Figure 56. Asset Managers – 12m fwd average PE, Nov 06 – Nov 11



Source: Datastream, Citi Investment Research and Analysis

Figure 57. Asset Managers P/E, Ranked by current vs. 5Y average

12m fwd PE	Current	5Y Avg	5Y sd	Current vs. 5Y Avg	Expressed in units of s.d.
Man Group	8.0	11.4	2.4	-3.4	-1.4
GAM	10.8	13.0	1.9	-2.2	-1.2
Henderson	10.1	12.2	2.3	-2.1	-0.9
F&C	8.2	11.5	3.8	-3.2	-0.9
Aberdeen	10.7	12.3	2.2	-1.7	-0.8
Average	**11.5**	**13.5**	**3.0**	**-2.0**	**-0.7**
Schroders	12.5	14.5	2.6	-1.9	-0.7
Hargreaves Lansdown	18.7	20.8	3.6	-2.1	-0.6
Gottex	10.6	13.3	6.8	-2.7	-0.4
Jupiter	11.8	12.1	1.6	-0.3	-0.2
Ashmore	13.1	13.5	3.0	-0.4	-0.1

"Current" 12m rolling fwd PE calculated as at 30 November 2011. Difference from 5 year average is expressed in units of standard deviation from the mean. Average Asset Managers PE is 0.7 s.d. below the 5 year average.

Source: Citi Investment Research and Analysis

Figure 58. Asset Managers – Summary Recommendations (Ranked in order of preference)

	Currency	Rating	Target Price	Current Price	ETR %	EPS CY 2011	EPS CY 2012	EPS CY 2013	PE CY 2011	PE CY 2012	PE CY 2013
Aberdeen	GBP p	Buy	245	209	22%	18.8	19.5	21.6	11.1	10.7	9.7
Ashmore	GBP p	Buy	375	328	19%	25.0	25.9	29.9	12.2	11.8	10.1
Henderson	GBP p	Buy	155	107	52%	12.5	13.5	15.3	8.5	7.9	7.0
F&C	GBP p	Neutral	na	66	na	5.5	9.2	10.5	11.9	7.1	6.3
Hargreaves Lansdown	GBP p	Neutral	450	441	7%	21.5	24.0	27.2	20.5	18.4	16.2
GAM	CHF	Neutral	11.20	10.20	14%	0.87	0.88	1.23	11.7	11.6	8.3
Man Group	GBP p	Neutral	130	130	11%	18.7	20.3	31.3	8.5	7.7	4.9
Jupiter	GBP p	Neutral	230	222	7%	19.6	18.7	19.8	11.3	11.8	11.2
Gottex	CHF	Neutral				-0.03	0.20	0.50	-89.3	13.9	5.5
Schroders Group*	GBP p	Neutral		1250		108.7	101.4	118.0	9.8	10.5	8.9
Peer Group Average					**22%**				**1.6**	**11.2**	**8.8**
Average ex GFMN and HRGV					**14%****				**10.6**	**9.9**	**8.3**
Schroders Voters	GBP p		1310	1302	4%						
Schroders NonVoters	GBP p		1110	1055	9%						

Source: Powered by datacentral. *Theoretical share price based on combined non-voting and voting shares. Priced at close of business 12 December 2011. **Excluding HGG

InterDealer Brokers

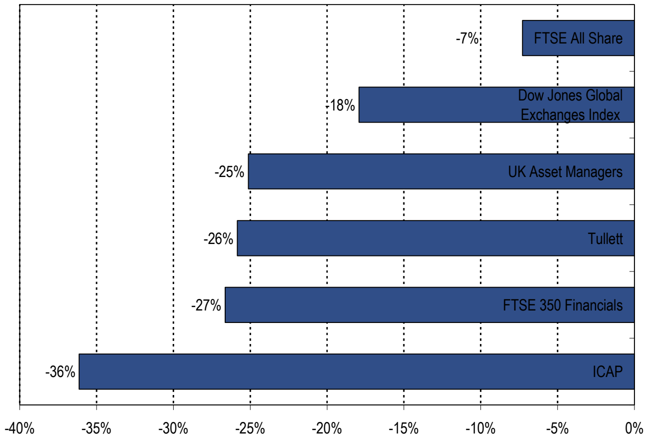
InterDealer Brokers

Overview

Underperformance in 2011. In 2011, interdealer broker share prices underperformed the FTSE All-Share Index and DJ Global Exchanges Index. ICAP was particularly weak, underperforming most interdealer brokers, global exchanges, UK asset managers and the FTSE 350 Financials Index.

Among interdealer brokers, Tradition was the weakest performing stock, followed by ICAP. Tullett outperformed the other listed interdealer brokers.

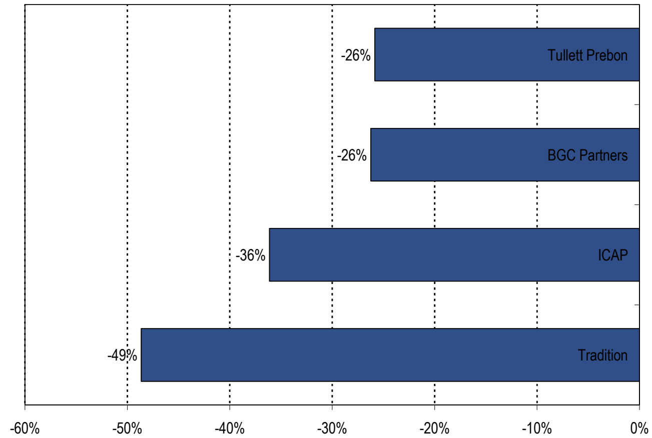
Figure 59. IDBs - 2011 Share Price Performance*



*As of Dec 9 close

Source: Datastream, Citi Investment Research and Analysis

Figure 60. IDBs – 2011 Share Price Performance Peer Comparison*

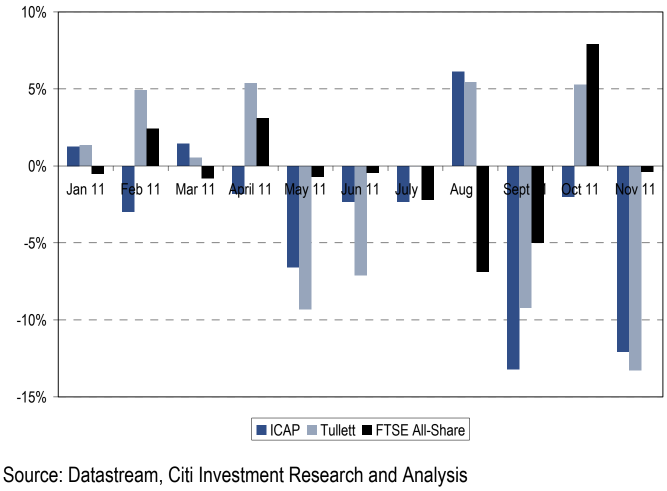


*As of Dec 9 close

Source: Datastream, Citi Investment Research and Analysis

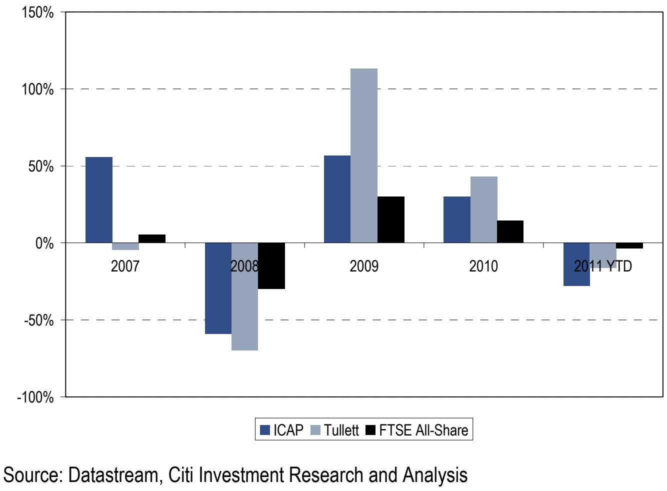
Underperformance particularly felt since Q3 11. Interdealer brokers actually outperformed the exchanges and asset managers until the end of Aug/beg of Sept. However, since then, the stocks underperformed, primarily driven by a number of factors including the slowdown in OTC trading volumes driven by the seasonal winding down of risk in Q4 exacerbated this year by the current macro uncertainty particularly in Europe; implications of deleveraging announcements by European investment banks; seemingly unwarranted fears of a read across from MF Global fallout; and concerns about a potential Financial Transaction Tax.

Figure 61. IDBs – 2011 Monthly Total Returns vs. FTSE All-Share



Source: Datastream, Citi Investment Research and Analysis

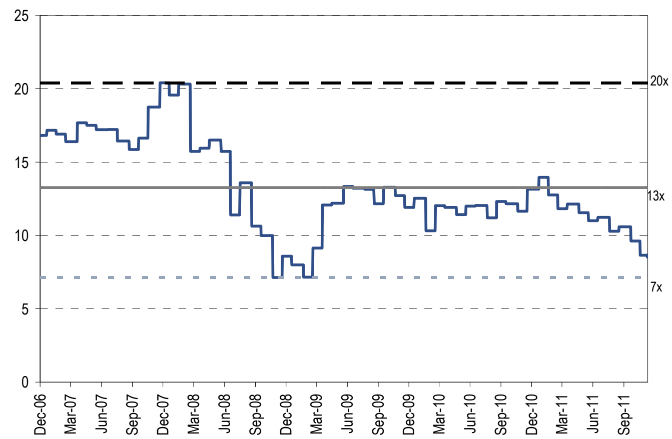
Figure 62. IDBs – Total Returns 2006-2011 vs. FTSE All-Share



Source: Datastream, Citi Investment Research and Analysis

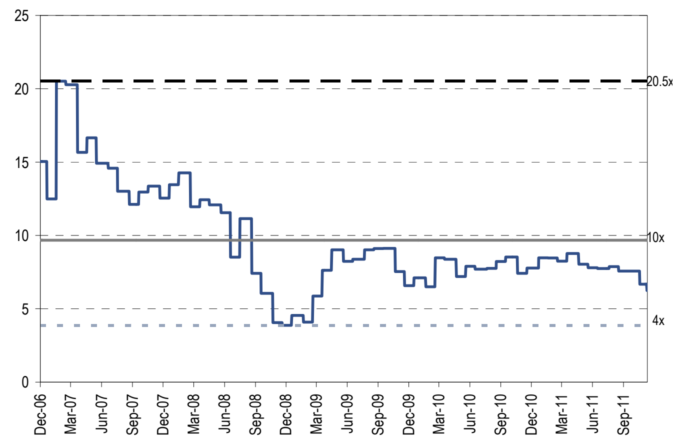
Sector P/E inexpensive vs. history. Both ICAP and Tullett are looking inexpensive vs. history. ICAP is trading at 1.5 standard deviation and Tullett at 1 std unit from its five year average 12m forward multiples.

Figure 63. ICAP – 12m fwd Average, Dec 06 – Dec 11



Source: Datastream, Citi Investment Research and Analysis

Figure 64. Tullett – 12m fwd Average, Dec 06 – Dec 11



Source: Datastream, Citi Investment Research and Analysis

Figure 65. IDBs, By current vs. 5Y average

12m fwd PE	Current	5Y Avg	5Y sd	Current vs. 5Y Avg	Expressed in units of s.d.
ICAP	8.5	13.3	3.2	-4.8	-1.5
Tullett Prebon	6.2	9.7	3.6	-3.1	-1.0

"Current" 12m rolling fwd PE calculated as at 9 December 2011. Difference from 5 year average is expressed in units of standard deviation from the mean.

Source: Datastream, Citi Investment Research and Analysis

Top Down Trends

We identify three key themes that we expect to affect the share prices of European interdealer brokers in 2012: Volume outlook, Secular changes in the FICC Trading Landscape and Regulation.

1. Volume outlook

2011 review – Q1–Q3. OTC derivative volumes in 2011 were particularly strong in March, June, July and August and September helped by the macro driven volatility in the markets, while April volumes suffered from lower trading days. By product, strong volumes in Interest Rates, FX, Emerging Markets and Commodities were offset by low activity levels in Credit.

Q4 11 - Lower than average volumes. Q4 typically is a slow quarter in trading volumes for exchanges and interdealer brokers. This year, however, the volumes have been more subdued than normal due to the reduced risk appetite due to the uncertainty in the Eurozone crisis.

Looking ahead - limited visibility, near term caution. We believe, in Q1 2012, there will be a seasonal rise in volumes; however the uplift may not be as large as normal if credible steps to resolve the Eurozone crisis have still not been taken by politicians by then. Looking beyond Q1, the growth of trading volumes will depend on the ability of politicians and regulators to calm fears about both sovereign and banking sector creditworthiness. Given what we know today, we expect the OTC derivative volumes to be subdued in 2012. We believe the first half of 2012 will continue to be dominated by the macro uncertainty and reduced risk appetite and the second half of the year (Q3 specifically) will be adversely impacted by tough comparables in 2011.

2012 volume expectations by product. By product, FX and Emerging Markets are the two products where we are relatively positive about volume growth. We are cautious on interest rate volumes given the expected low yield, flat curve environment in 2012. We are also cautious on Credit as it is the area that is most impacted by Basel 3 and the Volcker Rule.

Interest Rates

Rates encompasses plain vanilla interest rate swaps, forwards, futures, interest rate options, caps and floors, swaptions, and other derivatives. On the cash bond side - rates includes government bonds, sovereigns, agency debt, and municipals.

Near term – cyclical conditions unfavourable for volume growth but backlog of bond issuance can prove to be a positive surprise. In their recent note, Global Economic Outlook and Strategy - Prospects For Economies And Financial Markets In 2012 And Beyond, Citi Economists expect that 2012 will be a year of slowing global growth with wide divergences. Next year, the US is likely to grow modestly, the UK barely at all and the Euro area will likely be in recession. Monetary policy in general is expected to loosen further with the ECB expected to cut rates to 0.5% in 2012 and the UK to expand its QE2 programme aggressively.

We expect a long period of ultra-low nominal rates (and negative real rates) in major industrial countries, with the first rate hike forecast for 2014 in the US, 2015 in the UK and 2016 in the Euro Area.

Figure 66. ICAP YoY Revenue Growth Forecasts

	FY 12E	FY 13E
Interest rates	-1%	-2%
Credit	-12%	-10%
Foreign Exchange	3%	3%
Energy	0%	0%
Equities	5%	0%
Emerging Markets	0%	3%
Total Revenues	**-1%**	**-1%**

Source: Citi Investment Research and Analysis

Figure 67. Tullett YoY Revenue Growth Forecasts*

	FY 11E	FY 12E*
Interest Rate Derivatives	2%	1%
Fixed Income Securities	-5%	-2%
Equities	-13%	-5%
Energy	0%	0%
Information Sales & RMS	15%	8%
Total Revenues	**-0.5%**	**0%**

*Expect Tullett revenues to benefit from acquisitions. Expected Underlying total revenue growth is -3% in 12.

Source: Citi Investment Research and Analysis

Figure 68. Selected Countries – GDP Forecasts

	GDP Growth		
	2011F	2012F	2013F
Global (At Current FX Rates)	3.0 ↓	2.5 ↓	3.1 ↓
Industrial Economies	1.4	0.9 ↓	1.2 ↓
US	1.7 ↓	1.9	1.9 ↓
Japan	-0.4	1.8 ↓	1.3 ↑
Euro Area	1.5 ↓	-1.2 ↓	-0.2 ↓
UK	0.9	0.5 ↓	1.2 ↑
Emerging Markets	6.0	5.1 ↓	6.0 ↑
China	9.1	8.4 ↓	8.6 ↑

Source: Citi Investment Research and Analysis

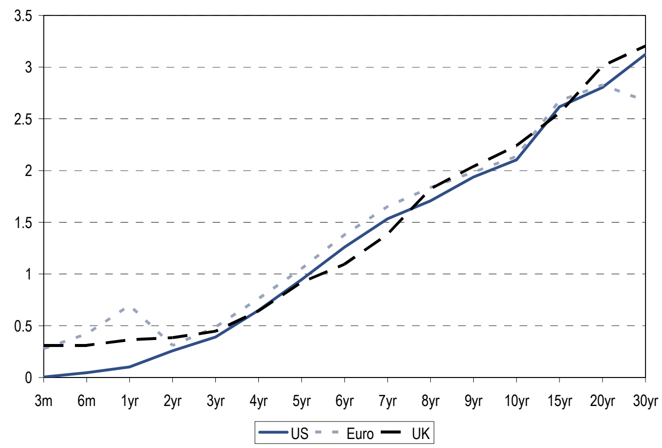
Figure 69. Selected Forecasts – Policy Rate Forecasts

		Forecast End Period					
	Current	1Q 12	2Q 12	3Q 12	4Q 12	1Q 13	2Q 13
US	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Euro Area	1.25	1.00	1.00	0.50	0.50	0.50	0.50
Japan	0.10	0.10	0.10	0.10	0.10	0.10	0.10
UK	0.50	0.50	0.50	0.50	0.50	0.50	0.50

Source: Citi Investment Research and Analysis

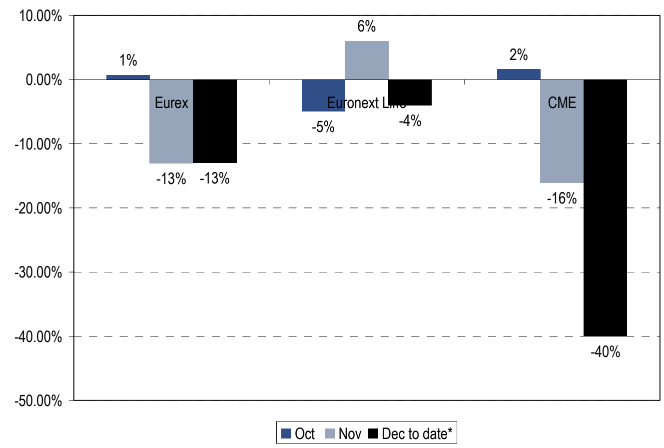
Low yield, flatter curve environment not favourable for rates trading volumes. Slowing growth, low confidence, stable policy rates, ongoing QE, and further pressure for fiscal tightening are likely to ensure that yields remain low. A low yield, flatter curve environment is not favourable for rates trading due to lower hedging requirements.

Figure 70. Yield Curve



Source: Bloomberg, Citi Investment Research and Analysis

Figure 71. Q4 To Date – Interest Rate Derivatives Volumes



Source: Company data, Citi Investment Research and Analysis

However, backlog of bond issuance, if materialized, could support interest rate volumes. As and when the primary markets stabilise, we expect the backlog of bond issuance to materialise and interest rate swap volumes to be supported owing to the hedging requirements associated with new issuance.

In the long run, structural changes bode well for rates trading volume growth. Given the high proportion of standardise-able transactions, we expect interest rate derivatives to significantly move toward central clearing and electronic trading, driven by the regulatory changes.

Figure 72. 85% of Interest Rate Derivatives Expected to be Clearable by Next Year.

	Notional ($T)	% Total
Cleared Today	125	37%
Clearable but Not Cleared	115	34%
Clearable by 1Q12	50	15%
Not Clearable	50	15%
Total	340	100%

Source: LCH.Clearnet SwapClear

According to LCH.Clearnet, 37% of the interest rate derivative market (as a percent of notional value) is currently cleared today versus over 70% of the IR derivative market which is technically capable of being cleared. The available market to be cleared is also expected to expand to ~85% of total IR derivative bys 1Q12, with the remaining 15% primarily interest rate options which are not expected to be clearable.

As the proportion of cleared interest rate derivatives increases and as they are moved on to electronic trading, we expect the velocity of trading to increase, resulting in trading volume growth.

Foreign Exchange

FX is a highly commoditised, efficient, and deeply liquid market with trading volumes highly concentrated among the top 6-8 dealers. Industry-wide, we believe most revenues come from flow trading vs. risk taking. Geographically, we estimate 80-90% of trading volumes are in G10 currencies (USD, EUR, GBP, JPY, CAD, AUD, NZD, CHF, SEK, NOK) with the remainder in emerging markets. FX markets trade mostly OTC with spot volumes the largest (vs. fwds, swaps and options).

Both cyclically and structurally well positioned to grow. We remain positive on FX volumes in 2012 both due to cyclical and structural reasons. Cyclically, continued volatility in the Eurozone should help the trading volumes of the highly liquid G10 currencies. Structurally, it is well positioned to grow as it is a low capital intensive, liquid asset class. A number of investment banks have already announced their intentions to grow in FX trading as part of their restructuring plans.

Outlook for 2012 relatively positive given little regulatory impact. FX is the least impacted business within investment banks' FICC businesses from the various regulations impacting the industry.

Much of FX appears to be exempt from new Dodd Frank and Volcker rules. The FX market, due to its size and the new risks that could potentially be created by mandatory clearing, exchange trading and settlement, is expected to receive exemptions from OTC derivative and Volcker proprietary trading regulations.

On April 29, the Treasury issued a proposal that would exempt FX swaps and forwards from the definition of "swap" for most Dodd-Frank purposes including registration, clearing and trading. FX "swaps" and forwards will still be subject to data reporting requirements, but not real-time trade reporting.

Basel 3 impact small relative to other FICC businesses given low duration. Basel 3 capital requirements step up significantly the longer the maturity of the trade, so the increase in capital requirement for trades is less for FX than for businesses-like interest rates.

Emerging Markets

Relatively more positive outlook in 2012 and beyond. Citi Economists continue to expect strong growth in 2012 for emerging Asia, LatAm, Africa and the Middle East economies. We expect EM growth of 5.1% for 2012 and 6.0% for 2013 compared to sluggish growth expected in the advanced economies of 0.9% in 2012 and 1.2% in 2013. Given the continued economic growth and the focus by investment banks to grow their activities in these regions, we expect emerging markets trading volumes to hold up well in 2012.

Credit

Cautious view on credit trading volumes in 2012. Credit is one of the asset classes that is the most impacted by the regulatory changes, particularly the Volcker rule and Basel 3. Credit has the least exemptions from Volker among the FICC businesses, with only ~5% of revenues from loans exempt.

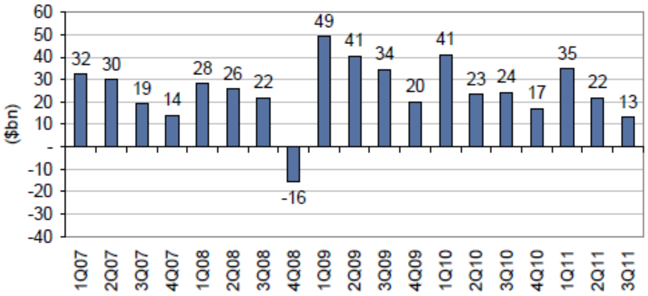
Within Credit, we expect the more liquid index derivatives trading to be less impacted than the single name CDS and cash corporate bond trading. Structured Credit is among the most impacted businesses by Basel 3, with correlation trading particularly heavily impacted. Overall, we expect Credit trading volumes to continue to be subdued.

2. Secular Changes in FICC Trading Landscape

Driven by the regulatory changes (particularly Dodd Frank, Volcker Rule, MiFIR and Basel 3), FICC businesses of global investment banks are going through significant secular changes. We expect the primary outcomes of these changes to result in 1. a more concentrated FICC trading industry 2. greater focus on "flow trading" 3. increased importance of scale and technology.

A more concentrated dealer community trading FICC products. We expect the FICC trading business to increasingly consolidate among 6-7 top global dealers. As Tier 2 and Tier 3 players have to downsize and/or exit certain FICC businesses, we expect that business will consolidate among largest players capable of making necessary technology and compliance investments.

Figure 73. Global Banks Fixed Income Trading Revenue Pool



Source: Company Reports, Citi Investment Research and Analysis. Excluding one-time marks and DVA

Figure 74. Core Fixed Income Trading Market Share

CORE	2006	2007	1H08	2009	2010	2011 YTD	YTD 2011 Chg vs 2006
JP Morgan	9.3%	9.1%	8.1%	10.1%	11.1%	14.0%	464 bps
Deutsche Bank	8.2%	9.7%	11.7%	8.4%	10.2%	11.6%	334 bps
Barclays	10.2%	14.6%	14.9%	11.0%	9.9%	9.6%	-61 bps
Goldman Sachs	9.6%	11.5%	12.2%	13.8%	12.1%	8.7%	-88 bps
BofA	9.9%	9.9%	8.8%	9.0%	9.6%	7.6%	-231 bps
RBS	10.8%	9.7%	5.4%	7.3%	6.0%	6.2%	-459 bps
BNP	2.7%	3.5%	3.6%	6.1%	5.4%	5.9%	311 bps
Morgan Stanley	6.8%	6.6%	5.9%	4.7%	5.6%	5.4%	-136 bps
Credit Suisse	5.6%	5.3%	4.1%	5.2%	4.9%	4.8%	-79 bps
HSBC	3.6%	3.2%	4.7%	4.7%	4.5%	4.4%	81 bps
UBS	4.8%	2.4%	1.5%	1.5%	3.6%	4.3%	-55 bps
Nomura	3.5%	2.7%	2.7%	1.5%	2.1%	2.6%	-91 bps
Soc Gen	2.1%	1.9%	2.9%	2.8%	2.5%	2.5%	46 bps
Credit Agricole	2.3%	2.0%	1.5%	1.8%	1.6%	1.9%	-38 bps

Source: Company Reports, Citi Investment Research and Analysis

Note: GS pro forma in 2010 onward for change in disclosure. Adds back "Debt" from Investing & Lending Segment to FICC trading for historical comparability;

Nomura and Barclays pre-Lehman market share allocates 60% of Lehman revenue to Barclays and 40% to Nomura;

Given unique 3Q11 circumstances we do exclude CVA on derivatives for MS & BAC

However "major swap participant" classification of end user imposed by Dodd Frank is expected to expand the number of players in the industry. We expect the final definition of "major swap participant" by Dodd Frank to include end user non-dealer institutions such as large asset managers, mortgage agencies and large energy companies. As such, the number of players should expand with the inclusion of this new class of end users.

Ultimately shift to "flow trading". Faced with higher capital requirements, a large number of investment banks both in the US and Europe have had to announce their plans to reduce their risk weighted assets and restructure their businesses.

In Figure 75 and Figure 76 , we provide the summaries of RWA deleveraging and headcount reduction plans. The common point to the restructuring plans is that investment banks are shrinking the long dated, capital intensive, complex businesses and focusing on growing less capital intensive flow product oriented businesses which are less impacted by the regulatory changes.

For instance, UBS is exiting asset securitisation (all non-mortgage), long-term rates and complex structured products with an overall reduction goal in FICC RWAs of almost ~40%. Long-end flow rates and global correlation trading will be a much smaller size. Short-end flow, US credit flow, synthetic equities and equity-linked businesses will continue but will also be smaller. UBS will fully exit macro directional trading in FICC and equity prop trading. Credit Suisse likewise has announced a 50% reduction in capital commitment to its FICC business including right-sizing its investment-grade and emerging markets operations. The two investment banks both highlighted that they would like invest and grow their low capital intensive flow businesses.

Figure 75. Summary of Select Deleveraging/RWA Mitigation Plans

	RWA run-off	Deleveraging / RWA Management
US		
Bank of America	~$65 bil	■ Run-off low rated RMBS (~$65 bil RWA), exit prop trading ■ Reduce CVA (~$25 bil RWA)
JP Morgan		■ Reducing securitization exposures to offset Basel 3 RWA impact
Goldman Sachs	~$60 bil	■ ~$60 bil RWA reduction from passive run-off of securities correlation portfolio (3Q10)
Morgan Stanley	~$100 bil	■ Expected RWA reduction by ~$100 bil by end of 2012 (2Q11)
Europe		
Deutsche Bank		■ Unwinds and roll-off of portfolios in Emerging Markets, Correlation trading and US RMBS portfolios ■ Credit correlation notional reduced 61% from end-2009
Credit Suisse	$15-$35 bil	■ A further $15-35 bil of Basel 3 RWA mitigation by 2012 ■ Downscale/exiting: Long-dated unsecured trades, CMBS origination, and 'de-layerering' of EMEA I-Banking
UBS	$100 bil	■ $100 bil of RWA reduction, with roughly half from legacy businesses (ARS, Credit products) ■ Rescaling structured credit, long-dated flow rates. Exiting Securitization, Complex structuring, Prop and directional macro ■ Clear change in de-risking the ban
BNP Paribas	~$45 bil	■ ~$45 bil deleveraging (~$30 bil in Financing, ~$15 bil Capital Markets)
Societe Generale	$40-$55 bil	■ $40-55 bil RWA deleveraging in the Corporate & Investment Bank (e.g. aircraft leasing, shipping, real estate, leveraged finance)
Credit Agricole	$20-$25 bil	■ $20-25 bil RWA deleveraging in the Corporate & Investment Bank

Source: Citi Investment Research and Analysis

More flow which will ultimately be increasingly electronically traded. So what are flow products? They are highly liquid with tight bid-ask spreads, easily valued, easily cleared and settled. As such they are not capital intensive and low margin products for investment banks. These products also lend themselves well to electronic trading. Given the regulatory push for electronic trading of centrally cleared standardised products, we expect these products to be increasingly electronically traded.

Ever increasing importance of technology and scale. In the increasingly flow driven and electronically traded environment, technology will become a key competitive advantage for investments banks' FICC businesses.

There has been a significant amount of headcount reduction at investment banks (Figure 76). We believe that this front-office human capacity loss will probably be compensated by increased use of technology reducing the need for headcount.

Figure 76. Summary of Cost Cutting Plans

	Heads	Cost Saves Targets ($bil)	Comments
US			
Bank of America	30,000	$5.0 (Phase 1)	■ BAC eliminating 30K positions across firm over several years. Phase 1 targets Consumer segment (18% expenses or $5.0 bil) ■ Commercial & I-Bank & Wlth Mgmt targeted in Phase 2 of cuts where size expected to be smaller. Phase 2 begins 2Q12
JP Morgan	unclear	unclear	■ No specific cuts identified
Goldman Sachs	1,000	$1.2	■ $1.2 bil in cuts or ~1K heads, 3% of total. Also 2011 will include higher percent of partner retirements
Morgan Stanley	unclear	$1.4	■ $1.4 bil in cost cutting by 2014
Europe			
Deutsche Bank	500	unclear	■ 500 positions in Corporate & Inv Bank from slow business volumes
Credit Suisse	3,500	$1.8	■ Cuts across business in 2011, ~7% of total heads ■ Cuts up from 2,000 originally planned in 2011 ■ Expense reduction of $1.8 bil by 2013
UBS	3,500	unclear	■ 3.5K cuts, with half from I-Bank (~10% of IB heads)
BNP Paribas	1,000	$0.7	■ Planning cuts from struct finance & capital mkts, ~7% of total. 1/3 France, 2/3 international.
Societe Generale	500	$0.35	■ 500 job cuts expected per press reports
Credit Agricole	1,000	unclear	
UK			
Barclays	3,000	unclear	■ 3K cuts through 2011, w/t 1,500 in I-Bank
RBS	5,000	unclear	■ Up to 5K of 19K (~25%) Global Banking & Mkts impacted. Reportedly 30-35% Fixed Income.
HSBC	30,000	unclear	■ 30K jobs (10% global workforce), distributed across the business
Japan			
Nomura	unclear	$1.2	■ Reviewing loss making European operations acquired from LEH (losses for 6 consecutive quarters)

Source: Company Reports, Citi Investment Research and Analysis

So what does all this mean for OTC volumes? In the near term, we believe there will be a slowdown in OTC volumes, driven by both the cyclical and structural reasons we discussed above.

Structurally, we think it will take some time for the investment banking industry to transition to a less capital intensive, flow trading driven model than capital requiring model. Furthermore, we expect regulatory uncertainty to remain for the most part of 2012. During this structural transition, inevitably there will be a slowdown in the OTC volumes.

However, in the medium to long term, we believe the shift to flow trading and increased central clearing and electronic trading will be favourable for OTC derivative volume growth.

And what does it mean for interdealer brokers? The majority of interdealer broker revenues (at least 75% for ICAP and even more for Tullett) are driven from flow products. The structural shifts in the FICC trading industry bode well for the businesses of IDBs in the medium to long term. As we noted in the past, technology and innovation will be key for IDBs success. Success in electronic broking and post trade services will be crucial in identifying the winners and losers of the structural changes in FICC trading. However, in the near term, their volumes and revenues should be adversely impacted as the industry goes through a structural transition and cyclical conditions improve.

Interdealer brokers need to review their cost structures. Given the near term pressures on the top line, we believe interdealer brokers need to undertake a comprehensive review of their cost structures, particularly their compensation expenses, which account for the majority of their operating costs. While their customers, i.e. investment banks have been and still are adjusting their compensation costs to the bear markets we have been in since the 2008 credit crisis, we believe interdealer brokers have not really done a major adjustment. One of the main reasons for that we believe is the notoriously competitive nature of the industry.

Overcapacity in the interdealer broking industry. We believe there is a significant amount of overcapacity in the IDB industry which is dominated by five major IDBs (ICAP, Tullett, Tradition, BGC Partners and GFI). Consolidation in the IBD industry has always been a topical subject given the overcapacity. While it may not be a theme for 2012, given the expected volatile market conditions and depressed valuations, we think it will be a theme for 2013 and beyond.

3. Regulation

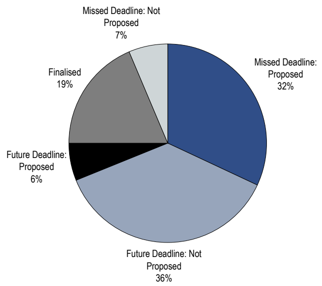
There are a number of regulatory changes taking place which are impacting the FICC trading industry and therefore interdealer brokers. Basel 3, Dodd Frank and Volcker Rule in the US and MiFIR in Europe are among the most significant regulatory drivers of the structural changes in FICC trading. There is also the proposed Financial Transaction Tax in Europe, which we believe is unlikely to be implemented in the EU or at a global level.

Regulatory uncertainty here to stay for the most part of 2012. 2011 was characterised by delays in regulatory initiatives on both sides of the Atlantic. Despite a slow progress, the picture of the new regulatory framework is beginning to emerge. However, a significant amount of detail is still missing. We expect regulatory uncertainty to remain at least for the first half of 2012, possibly even longer.

Regulatory impact varies across business. Within FICC trading businesses – FX seems least impacted due to a large number of exemptions, while Credit seems most at risk with its businesses impacted by OTC clearing and with few exceptions to Volcker. Parts of Rates will be hurt, especially by any second-order impact to the high return business of un-cleared corporate trades, while the impact on Commodities depends on the final Volcker reading, with recent position limit rules manageable.

Basel 3 – one of the key drivers of the structural change in FICC trading. The Basel capital rules act as a capital incentive for banks to move trades to central clearing, with a lower risk weighting and no CVA charge under Basel 3. As a result, cleared trades become more capital efficient under the new system than for un-cleared trades with a AAA counterparty with daily margin This has resulted in the banks restructuring their FICC businesses with a shift towards less capital intensive, flow products which can be easily cleared and settled. Basel 3 is expected to be implemented gradually between 2013 and 2019.

Figure 77. Dodd Frank Rule Making Progress



Source: Davis Polk – Dodd Frank Progress Report as of 1 December 2011

Dodd Frank – Title VII – OTC Derivatives – slow progress. According to "Dodd-Frank Progress Report" by the law firm DavisPolk, as of December 1, there are only 61 finalised rules, out of the estimated 400[1] joint rulemakings by the SEC and CFTC.

From IDBs' perspective, the final definition of SEF is among the most important milestones of Dodd Frank. Endorsed by the G-20, Dodd Frank aims to move as large a proportion of OTC trading activity as possible onto the newly-defined SEFs. However, uncertainty continues to surround SEFs, as the exact form they will take (what can and cannot be a SEF) remains undefined. However, rules surrounding the SEF process show major differences between the SEC and CFTC, with the CFTC pushing for transparency that will make swaps more like futures and the SEC model looking closer to current market practice. We believe the SEC model for the SEF definition would be a more favourable outcome for the OTC derivatives industry as we think the industry is not yet standardised enough to move onto an order book trading platform.

Over the next 4-5 months we are likely to see much of the key rule-making from the CFTC regarding derivatives trading. While the process appears to be moving with roughly a one-year delay and further delays are possible, the timeline below represents regulators' current commitment to present final rules. We do not expect to get any significant clarity on the details of the rules before the end of the first half of 2012.

Figure 78. Outline of Final Dodd-Frank Title VII Rules the CFTC May Consider in 2011 and Q1 12

Remainder of 2011	**Clearinghouse Rules**
	Data Recordkeeping and Reporting
	End-User Exception
	Entity Definitions/Registration
	External Business Conduct
	Internal Business Conduct
	Position Limits
	Product Definitions/Commodity Options
	Real-time Reporting
	Segregation for Cleared Swaps
	Trading - Designated Contract Markets and Foreign Boards of Trade
Q1 2012	Capital and Margin
	Client Clearing Documentation and Risk Management
	Conforming Rules
	Disruptive Trading Practices
	Governance and Conflict of Interest
	Internal Business Conduct (Documentation)
	Investment of Customer Funds
	Swap Execution Facilities
	Segregation for Uncleared Swaps
	Straight-Through Trade Processing

Source: CFTC

Volcker Rule. First draft of Volcker rule looks relatively tough to implement… On October 11 the Treasury/OCC, Federal Reserve, FDIC and SEC issued a detailed 298-page proposed draft of the Volcker Rule. We think the proposed draft raised more questions than answers. In its current form, we think it looks difficult to implement. Ultimately we believe that the rule will continue to allow brokers to have proprietary positions in market making activities probably in less capital intensive assets but will prohibit long term proprietary positions.

[1] If joint rules are excluded that need to be issued by multiple agencies, the number is closer to 243.

MiFIR – same objectives with a lag. European OTC Derivative legislation (MiFIR and EMIR) continues to lag its US counterpart, with OTC clearing rules awaiting parliamentary approval (estimated delivery end-2012) and market infrastructure rules recently proposed. We believe EMIR will be in place by the end of 2012 (with the conciliation procedure expected to complete 1Q12). Given the time taken for EMIR to pass, the completion of MiFIR by end-2012 looks challenging, with the FSB expecting delivery some time in 2013. MiFIR is expected to take effect by the end of 2014.

One of MiFID's objectives appears to be to identify and regulate all forms of trading venues, across both cash products and derivatives. Given this objective, the breadth of the proposal impacts a variety of market structures such as internal trading crossing networks, dark pool and ECNs. These rules seem likely to be broad-based, however, there are no similar provisions to require a minimum of 5 request-for-quotes electronic trading systems for derivatives as seen in the CFTC's swap execution facility in the US.

One of the negative and unexpected components of the draft MiFIR proposal is its increased scrutiny of Algorithmic & High Frequency Trading. In its current form, the proposal includes rules for all automated trading (including algorithmic and high frequency), treating the business as a market maker. The outline suggests that compliance and oversight costs for algorithmic trading may be significantly increased if MiFIR passes in the current form. This could hurt the economics of high frequency trading businesses and potentially result in the closure of some of these firms. Clearly, this would be negative for the overall volumes and liquidity. The European Commission's proposals on the algorithmic and HFT obligations will now pass to the European Parliament and Council of European Union, with the expectation that the three bodies will come to an agreement by the end of 2012

Valuation

Cross-border comparisons of interdealer broker and exchanges are predominantly based upon PE multiples. Our analysis shows that the average interdealer broker trades at ~8x cal 2012e, at a discount to the average European exchange at 10x cal 2012e and average UK asset manager at 11.5x cal 2012e.

Recommendation Summaries

ICAP - Buy – We have a high conviction that ICAP will emerge as one of the ultimate winners of the structural changes in OTC trading landscape. We think the stock's current valuation at 8x 2012E offers a good opportunity for investors who prefer to look through the near term cyclical challenges and regulatory delays and focus on the long term structural earnings growth potential of ICAP.

Tullett Prebon - Neutral – We downgrade Tullett to Neutral. We think the valuation at ~7x 12E is undemanding and we continue to like the company's low risk profile, strong balance sheet, high cash generation and dividend yield. However, near term cyclical pressures on earnings and uncertainty about Tullett's long term success in electronic broking and post trade will make it difficult for the stock to re-rate, in our view.

UK Companies

Company Focus

- Company Update
- Rating Change
- Target Price Change
- Estimate Change

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Neutral	**2**
from Buy	
Price (14 Dec 11)	£1.81
Target price	£2.00
from £2.75	
Expected share price return	10.6%
Expected dividend yield	4.5%
Expected total return	**15.1%**
Market Cap	£1,755M
	US$2,717M

Price Performance
(RIC: III.L, BB: III LN)

3i Group Plc (III.L)

Concerns Priced In, Rerating Unlikely in 2012

- **Downgrade to Neutral, TP 200p** — In 2012, given our expectation of near term range bound and volatile markets, we prefer stocks that are defensive (or rather, less cyclical than peers) with strong balance sheets. Despite its improving balance sheet, 3i is far from being a defensive stock. Given the pro-cyclical nature of private equity, we expect the slowing down of investment and realization activity levels and earnings growth of 3i's portfolio companies and increasing provisions to continue to put pressure on 3i's NAV growth for FY 13. Admittedly, the stock price already reflects the market's concerns over NAV. 3i shares are down over 40% ytd and the stock is trading at 0.6x Sept 11 NAV. However, until we see signs of improvement in the capital market and economic growth conditions, we prefer to have a Neutral rating. The decline in our TP is driven by 7% decline in FY 12 and 17% decline in FY 13 NAV and higher P/B discount (30% vs. 20% previously) we apply in valuing the shares.

- **Private equity markets practically shut since October** — Private equity markets, which saw renewed signs of investment and exit activity 1H 12, have started to slow down in August with the decline of the public equity markets, and have been practically shut since the beginning of Q4. We expect the slow activity levels to be a continued theme for the most part of 2012.

- **Revised NAV forecasts** — Our 31 March 12 NAV forecast is 298p. The small increase from the 294p NAV at 30 Sept 11 is a reflection of the increase in market multiples since then, offset by our assumption of continued earnings declines of portfolio companies in 2H 11/12. Our 31 March 13 NAV forecast is 286p, down 4% yoy. We forecast a 15% increase in market multiples in line with Citi Strategists' expectations, which is offset by 12% earnings decline and increased provision assumptions.

- **Further cost reduction possible** — 3i has already announced a front office cost reduction which will result in a £15m per annum decline in opt costs. We think 3i could do more to cut costs, possibly in the back office operations. We forecast FY 11 underlying opt expenses of £187m, falling to £165m FY 13-end.

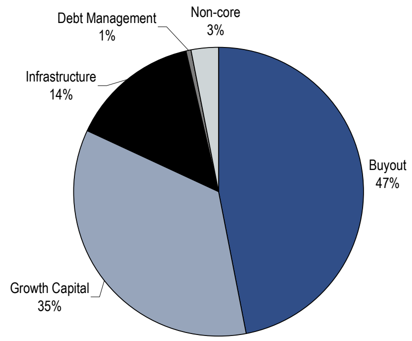
- **Inorganic growth required for AuM expansion; buybacks unlikely in 2012** — Given the challenging fundraising conditions, we think 3i needs to explore inorganic growth opportunities to achieve its strategic objective of expansion of its stable fund management business. As such, despite the ~£500m headroom in the company's net debt limit, we think buybacks are unlikely in 2012.

3i Group Plc (GBP)

Year to 31 Mar	2010A	2011A	2012E	2013E	2014E
Net Income (£M)	154.0	186.0	-459.9	-30.6	553.0
Diluted EPS (p)	17.1	19.5	-48.5	-3.2	58.0
Diluted EPS (Old) (p)	17.1	19.5	-27.1	27.4	49.0
PE (x)	10.6	9.3	-3.7	-56.4	3.1
P/BV (x)	0.6	0.5	0.6	0.6	0.5
DPS (p)	3.0	3.6	8.1	8.5	9.4
Net Div Yield (%)	1.7	2.0	4.5	4.7	5.2
ROE (%)	6.2	5.8	-14.8	-1.1	18.6

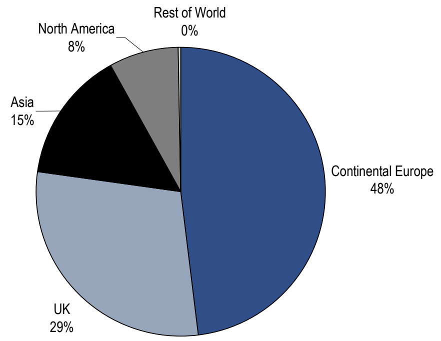
3i – Key Charts

Figure 79. 3i Direct Portfolio by Business Line – 30 Sept 11



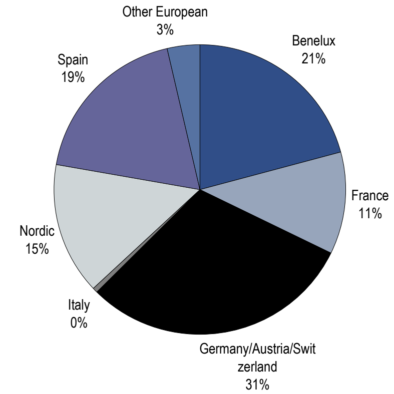
Source: Company data, CIRA

Figure 80. 3i Direct Portfolio by Geography - 30 Sept 11



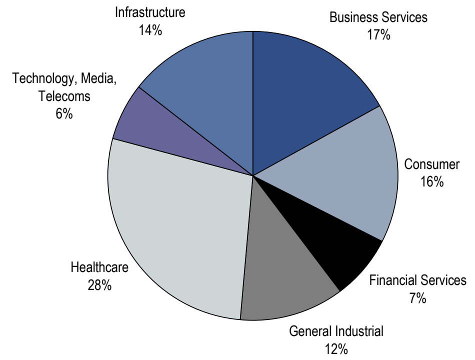
Source: Company data, CIRA

Figure 81. Breakdown of Cont Europe Direct Portfolio - 30 Sept 11



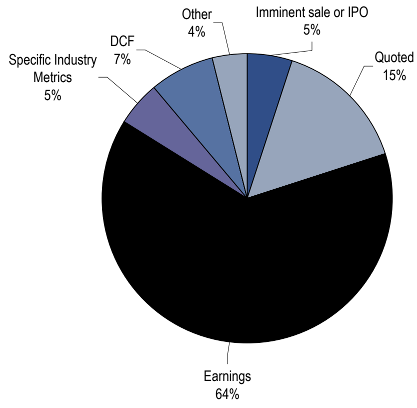
Source: Company data, CIRA

Figure 82. 3i Direct Portfolio by Sector - 30 Sept 11



Source: Company data, CIRA

Figure 83. 3i Direct Portfolio by Valuation Method - 30 Sept 11



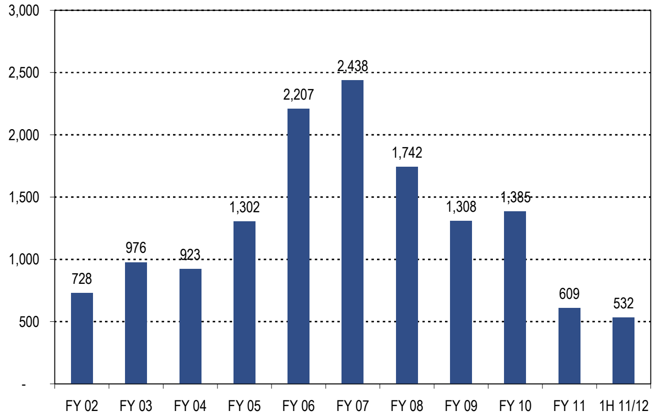
Source: Company data, CIRA

Figure 84. 10 Largest Investments

	Investment	Business Line	Geography	Valuation (£m)
1	3i Infrastructure	Infrastructure	UK	363
2	MWM	Buyouts	Germany	193
3	ACR Capital Holdings	Growth	Singapore	147
4	Peer Holdings	Buyout	Netherlands	131
5	Foster + Partners	Growth	UK	122
6	Memora Servicios Funerarias	Buyouts	Spain	118
7	Mold-Masters Luxembourg	Growth	Canada	98
8	Quintiles Transnational Corporation	Growth	US	96
9	Eco US Holdings (HILITE)	Buyout	Germany	96
10	Mayborn Group	Buyouts	UK	93
	Top 10 Investments			**1,457**

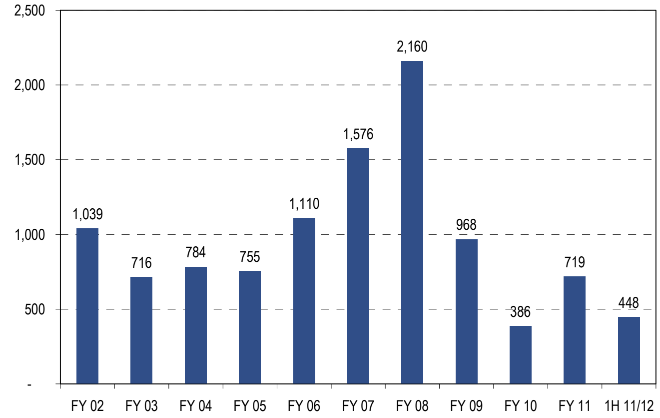
Source: Company data, CIRA

Figure 85. Realisation Proceeds (£m)



Source: Company data, CIRA

Figure 86. 3i only Investments (£m)



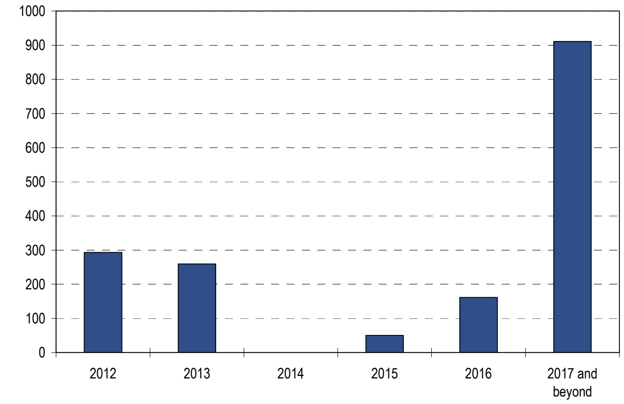
Source: Company data, CIRA

Figure 87. Outstanding Debt

	Rate	Maturity	Value (£m)
Fixed Rate			
EUR 350m notes	5.625%	2017	302
£200m notes	6.875%	2023	200
£400m notes	5.750%	2032	375
Other			34
Variable rate			
EUR 500m notes	Euribor + 0.20%	2012	293
Other			259
Committed multi-currency facilities			
£200m	Libor + 3.75%	2014	50
£450m	Libor + 1.00%	2016	161
Total Borrowings			**1,674**

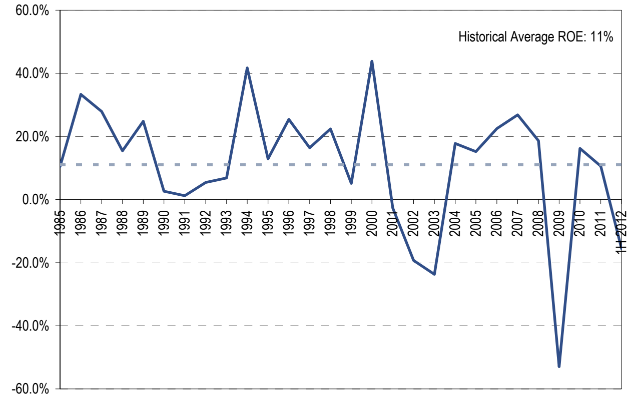
Source: Citi Investment Research and Analysis

Figure 88. Debt Repayment Profile (£m)



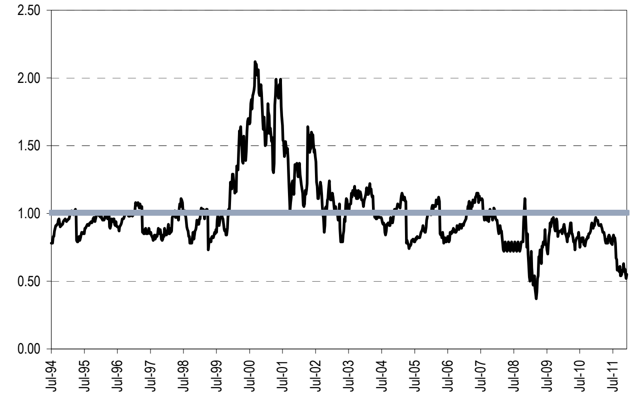
Source: Company data, CIRA

Figure 89. Historical ROE development



Source: Company data, CIRA

Figure 90. Premium/Discount to NAV Analysis



Source: Datastream, CIRA

Figure 91. Funding Model

	Private Equity	Infrastructure	Debt Management
Own balance sheet	64%	31%	1%
External	36%	69%	99%

Source: Company data, CIRA

Figure 92. Assets Under Management

	Close date	Original fund size	% invested at March 2011	Gross Money Multiple at Sept 2011	
Private Equity					
3i Eurofund III	Jul-99	EUR 1,990m	91%	2.1x	
3i Eurofund IV	Jun-04	EUR 3,067m	96%	2.3x	
3i Eurofund V	Nov-06	EUR 5,000m	80%	0.8x	E
3i Growth Capital Fund	Mar-10	EUR 1,192m	52%	1.0x	E
Growth Capital non-fund	various	various	various	n/a	
Other	various	various	various	n/a	
Infrastructure					
3i India Infrastructure Fund	Mar-08	$1,195m	65%	1.1x	
3i Infrastructure Plc	Mar-07	£973m	n/a	n/a	
Other	various	various	various	n/a	
Debt Management				Paying Yield	
Harvest I	Apr-04	EUR 514m	100%	9.4%	
Harvest II	Apr-05	EUR 552m	100%	11.4%	
Harvest III	Apr-06	EUR 660m	100%	9.2%	
Harvest IV	Jun-06	EUR 752m	100%	10.3%	
Harvest V	Apr-07	EUR 650m	100%	4.6%	
Windmill I	Oct-07	EUR 600m	100%	5.3%	
Friday Street	Aug-06	EUR 300m	100%	2.6%	
3i Credit Opportunities Fund	Sep-11	EUR 50m	23%	n/a	
Vintage I	Mar-07	EUR 500m	100%	4.4x	
Non-core					
Total AuM					

*Adjusted to reflect 3i Infrastructure pls's $250m commitment to the fund

Source: Company data, CIRA

Figure 93. 3i P/B Valuation

Price/NAV	**Valuation**
Last 12M average P/B	0.70
3i projected NAV Mar 12	298
3i projected NAV Mar 13	286
Theoretical NAV Dec 12	289
Theoretical valuation	202
Target price per share (p)	**200**

Source: Citi Investment Research and Analysis

3i – Key Financials

Figure 94. 3i – Summary P&L

£m	2011	H1 11/12	H2 11/12E	2012E	2013E	2014E
Realised profits over value on the disposal of investments	124	31	20	51	98	160
Unrealised profits/(losses) on the revaluation of investments	325	-441	51	-390	-108	427
Total realised and unrealised profits	449	-410	71	-339	-11	587
Portfolio income	152	79	79	158	145	156
Dividends	41	20	21	41	41	41
Income from loans and receivables	110	51	50	101	104	115
Fees receivable	1	8	8	16	0	0
Gross portfolio return	601	-331	150	-181	135	743
Carried interest receivable	25	-11	-11	-22	-1	75
Carried interest payable to executives	-63	12	12	24	2	-117
Fund management fees	67	43	43	86	94	115
Operating expenses	-181	-98	-98	-196	-165	-168
Net portfolio return	449	-385	96	-289	65	647
Treasury interest receivable	12	6	8	14	13	14
Interest payable	-139	-58	-63	-121	-104	-104
Net interest receivable/(payable)	-127	-52	-54	-106	-91	-90
Movements in the fair value of derivatives	-1	-16	0	-16	0	0
Finance income on pension plan	0	0	0	0	0	0
Exchange movements	-135	-45	0	-45	0	0
Other income	3	1	0	0	0	0
Profit before tax	189	-497	42	-456	-26	558
Income tax	-3	-3	-1	-4	-4	-5
Profit after tax and profit for the period	186	-500	41	-460	-31	553
Total recognised income and expense (Total return)	324	-523	90	-434	-31	553
NAV ps diluted (p)	**351**	**294**	**298**	**298**	**286**	**335**

Source: Company data, Citi Investment Research and Analysis

3i Group Plc

Company description

3i is a mid market focused private equity group. The company has been operating since 1945 and as a listed share since 1994. Group operations are centred around three core divisions of Private Equity, Infrastructure and Debt Management. The company uses its own balance sheet as well as external funds raised to invest in companies and restructure corporate earnings profiles.

Investment strategy

In 2012, given our expectation of range bound and volatile markets in the near term, we prefer stocks that are defensive (or rather, less cyclical than peers) with strong balance sheets. Despite its improving balance sheet, 3i is far from being a defensive stock. Given the pro-cyclical nature of private equity, we expect the slowing down of investment and realization activity levels and earnings growth of 3i's portfolio companies and increasing provisions to continue to put pressure on 3i's NAV growth for FY 2013. Admittedly, the stock price already reflects the market's concerns over NAV. 3i shares are down over 40% ytd and the stock is trading at 0.6x Sept 11 NAV. However, until we see signs of improvement in the capital market and economic growth conditions, we prefer to have a Neutral rating on 3i.

Valuation

We value 3i using a price to NAV approach. We apply a 0.7x P/B to forecast NAV. This is a discount multiple vs. 3i's historical P/NAV over the past 15 years (1x book) but we believe some discount to book is likely to remain in the near term, reflecting lower ROE achievement in the current environment, and market concerns over refinancing requirements for PE backed firms in 2012. We have actually increased the discount that we apply in valuing 3i shares, given the market volatility in the last six months. Previously we used to value the stock at 0.8x, now we apply a 0.7x book multiple.

We forecast NAV using the last reported figure and our forecasts of realised and unrealised profit movements, as well as other elements of total return, including portfolio income, carried interest and operating expenses. We estimate Mar 2013 at 286p.

We apply our chosen P/NAV multiple to estimated Dec 2012E NAV (289p) in order to derive our 12m price target.

This implies a theoretical valuation of 202p. We set our rounded target price, as a result, at 200p.

Risks

We highlight the following risks to achieving our target price.

1. Negative earnings momentum for corporates - 3i values the majority of its investments on an earnings basis. Downwards earnings momentum could reduce any NAV recovery from higher earnings multiples.

2. Increasing provisions - In the current reduced economic growth environment, 3i faces the risk of higher than expected provisions and impairments in its portfolio.

3. Need to de-leverage investments within the portfolio: High leverage in existing investments could cause 3i to have to continue to support existing portfolio investments rather than being able to make more attractive new investments.

4. Inability to exit positions: At present, private equity exits are constrained. If 3i cannot exit positions it cannot realise cash, potentially causing funding issues when debt comes up for renewal or an inability to fund new investment opportunities.

5. Sooner than expected markets recovery: If the market starts rallying sooner than our expectations, we would expect 3i to outperform.

If the impact from any of these factors proves to be more negative than we anticipate, the stock will likely have difficulty achieving our financial and price targets. However, if any of these factors proves to have less of an effect than we anticipate, the stock could materially outperform our target.

Company Focus

■ Company Update

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Buy	**1**
Price (14 Dec 11)	£2.06
Target price	£2.45
Expected share price return	19.1%
Expected dividend yield	4.9%
Expected total return	**24.0%**
Market Cap	£2,355M
	US$3,645M

Price Performance
(RIC: ADN.L, BB: ADN LN)

Aberdeen Asset Management (ADN.L)

Fund Flows and Capital Returns

- **Summary** — Aberdeen is our top pick in the sector. It is less cyclical than peers ("sticky" institutional bias to AUM, AUM growth driven more by flows than markets, strong pricing power, ability to protect operating margins) and also offers potential additional capital return to shareholders in late 2012/early 2013.
- **Pricing Power** — Aberdeen is a market leader in Asia and EM Equity fund management. It has used this position to maximise margins, with new investors asked to pay higher margins to access Aberdeen pooled funds.
- **Superior Flows** — In a volatile year for EM and Asia Equity markets, Aberdeen has continued to outperform peers. This has helped it see fund inflows through the year, despite periods of significant fund withdrawal across the wider industry.
- **Right Place** — 2012 promises to be a difficult year for equity markets, with ongoing Sovereign Credit Risk and Global Growth / Recession concerns. Asia and EM look to be the engines of global growth near-term. As such, we expect investors to continue to demand access to Aberdeen's investment products.
- **Balance Sheet** — Aberdeen has been rebuilding its balance sheet in recent years, and is on track to achieve a target position by end September 2012, meaning it will no longer need the FSA waiver from Consolidated Supervision (the "goodwill waiver") to comply with regulatory capital requirements.
- **Capital Return** — The group has committed to using future surplus cashflow to repurchase shares to fund staff incentive plans, and increase its dividend payout ratios. On our forecasts, Aberdeen will be able to fund all the share repurchase needed to offset the dilution impact of share incentive payment schemes, plus have an extra £50m available for higher dividends or further buybacks in 2012.
- **Institutional vs. (UK) Retail** — Aberdeen AUM is predominantly institutional, which should prove 'sticky' in difficult market conditions. Only a small proportion of AUM is UK Retail, so the group should be relatively untouched by significant regulatory change (Retail Distribution Review) proposed from 1 January 2013.
- **Buy, 245p target** — We rate the stock Buy with a 245p target. At 10.7x CY 2012E PE, the stock trades at a premium to peers (9.9x) but we believe offers superior investment characteristics.

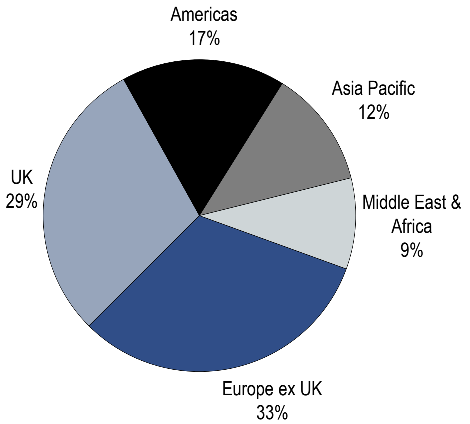
Aberdeen Asset Management (GBP)

Year to 30 Sep	2010A	2011A	2012E	2013E	2014E
Net Income (£M)	158.0	231.3	234.3	258.1	307.0
Diluted EPS (p)	13.3	18.7	18.9	21.0	25.4
Diluted EPS (Old) (p)	13.3	18.7	18.9	21.0	25.4
PE (x)	15.5	11.0	10.9	9.8	8.1
P/BV (x)	1.9	1.8	1.8	1.7	1.6
DPS (p)	7.0	9.0	10.0	11.0	12.7
Net Div Yield (%)	3.4	4.4	4.9	5.3	6.2
ROE (%)	8.2	14.0	13.7	15.1	17.8

Aberdeen Asset Management

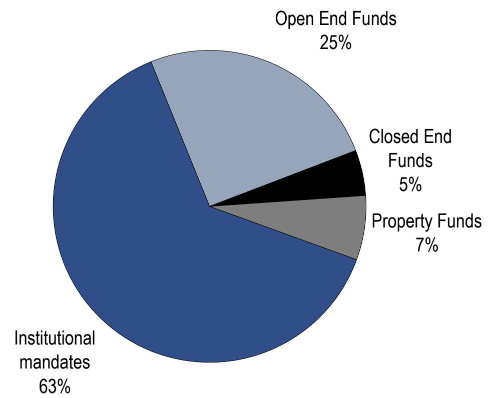
Key Charts

Figure 95. Aberdeen – End September AUM, split by Client Location



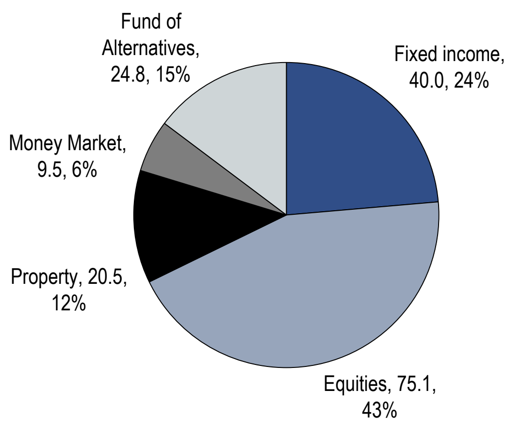
Source: Company Reports

Figure 96. Aberdeen – End September AUM, split by Customer Type



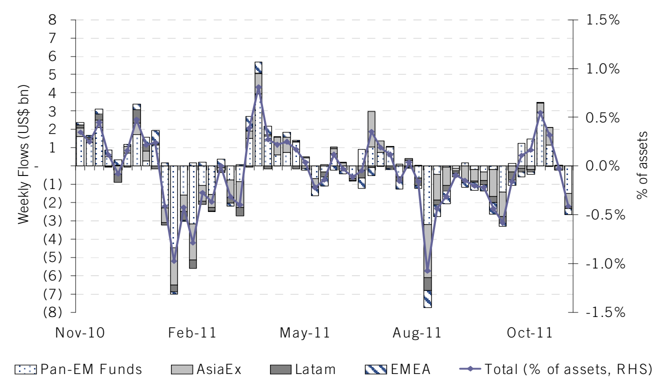
Source: Company Reports

Figure 97. Aberdeen – End September AUM, split by Asset Class



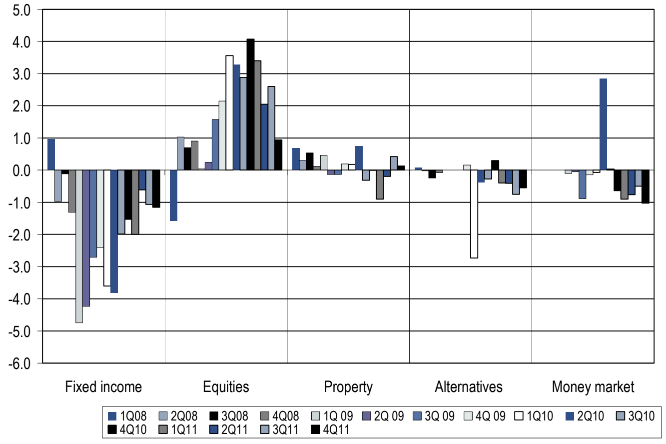
Source: Company Reports

Figure 98. EM Equity Fund Flows (Weekly by Region)



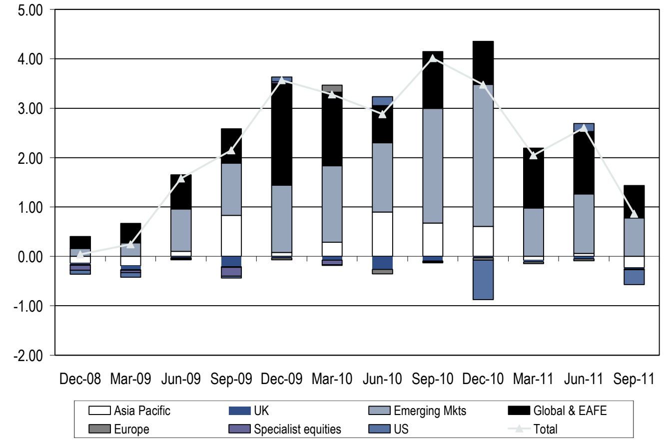
Source: EPFR Global

Figure 99. Aberdeen – Quarterly AUM Flows by Asset Class, Q108-Q411



Source: Company Reports

Figure 100. Aberdeen-Quarterly Equity Fund flows by region, Q109-Q411



Source: Company Reports

Financial Forecasts

Figure 101. Aberdeen Asset Management – Summary Financial History and Forecasts £m

								YoY %				
Year end: September	**2008**	**2009**	**2010**	**2011E**	**2012E**	**2013E**	**2014E**	**2008**	**2009E**	**2010E**	**2011E**	**2012E**
Opening AUM, £billion	95.3	111.1	146.2	178.7	169.9	180.9	199.7	30.3	16.6	31.6	22.2	-4.9
Net New Funds and Acquisitions	1.0	-10.7	2.6	-1.7	0.7	7.0	9.2	-88.7	-1184.1	-124.3	-166.8	-138.2
Market Appreciation and other	-1.5	13.5	17.5	-7.1	10.3	11.8	13.0	-118.0	-1000.6	29.4	-140.4	-246.2
Acquisitions	16.3	32.3	12.4	0.0	0.0	0.0	0.0	219.6	98.2	-	-	-
Closing AUM, £billion	**111.1**	**146.2**	**178.7**	**169.9**	**180.9**	**199.7**	**221.9**	**16.6**	**31.6**	**22.2**	**-4.9**	**6.5**
Management fees £m	395.7	402.4	596.9	739.2	745.4	818.2	911.7	42.4	1.7	48.3	23.8	0.8
Transaction fees £m	25.1	6.9	11.0	8.5	10.0	10.0	10.0	-63.6	-72.5	59.4	-22.7	17.6
Performance fees £m	9.3	12.6	30.3	36.3	29.2	33.1	38.0	970.2	35.5	-	-	-
Revenue £m	**430.1**	**421.9**	**638.2**	**784.0**	**784.7**	**861.3**	**959.6**	**23.6**	**-1.9**	**51.3**	**22.8**	**0.1**
Other operating income £m	0.7	(0.3)	0.0	0.3	0.0	0.0	0.0	-79.0	-139.0	-	-	-
Operating expenses £m	(330.8)	(325.9)	(416.3)	(474.7)	(475.6)	(523.4)	(562.1)	31.6	-1.5	27.7	14.0	0.2
Operating profit £m	100.0	95.7	221.9	**309.6**	**309.0**	**337.9**	**397.6**	**0.0**	**-4.3**	**131.8**	**39.5**	**-0.2**
Net finance costs £m	(4.9)	(10.6)	(11.9)	(7.7)	(2.8)	(2.8)	(2.8)	-14.3	116.5	12.1	-35.3	-63.6
PBT £m	**95.1**	**85.1**	**210.0**	**301.9**	**306.2**	**335.1**	**394.8**	**0.9**	**-10.5**	**146.8**	**43.8**	**1.4**
Tax expense	(16.5)	(14.6)	(40.4)	(60.2)	(61.2)	(66.2)	(77.0)					
Adjusted Profit after tax	78.6	70.5	169.6	**241.7**	**245.0**	**269.0**	**317.8**					
Coupon payments on perpetual capital	(11.6)	(14.8)	(14.4)	(14.2)	(14.5)	(14.6)	(14.6)					
Add back interest on convertible bonds	0.2	0.0	3.0	3.8	3.8	3.8	3.8					
Adjusted PAT for dil EPS calculation	67.2	55.7	158.2	**231.3**	**234.3**	**258.1**	**307.0**					
Fully Diluted EPS - Pence	**9.0**	**6.3**	**13.3**	**18.7**	**18.9**	**21.0**	**25.4**	**-19.1**	**-30.0**	**110.5**	**40.9**	**1.2**
DPS, Pence	**5.8**	**6.0**	**7.0**	**9.0**	**10.0**	**11.0**	**12.7**	**5.5**	**3.4**	**16.7**	**28.6**	**11.1**
Dividend Cover, Times	1.6	1.1	1.9	2.1	1.9	1.9	2.0					
Average Number of Shares, Millions	652.1	796.7	1080.1	1128.4	1134.5	1121.8	1101.8	9.2	22.2	35.6	4.5	0.5
Average Dil Number of Shares, Millions	745.3	883.2	1189.4	1235.8	1237.5	1226.3	1206.3	3.3	18.5	34.7	3.9	0.1
Management fee margins by asset class												
Equities			53.8	480.3	490.2	547.1	618.2					
Fixed income			22.0	95.7	97.4	105.0	115.0					
Money Market			13.0	13.1	11.7	11.5	12.5					
Property			49.0	104.8	105.6	114.1	125.5					
Alternatives			17.0	45.3	40.6	40.6	40.4					
		34.2	**36.0**	**739.2**	**745.4**	**818.2**	**911.7**					
AUM Mix												
Equities		30%	37%	59.9	61.0	60.0	60.0					
Fixed income		39%	28%	23.0	24.0	24.5	24.5					
Money Market		6%	7%	13.0	13.0	13.0	13.0					
Property		20%	14%	50.0	50.0	50.0	50.0					
Alternatives		5%	15%	16.0	16.7	16.5	15.5					
				40.8	**42.5**	**43.0**	**43.3**					
Employee costs		200.4	228.2									
Compensation / Revenue ratio		**47.5%**	**35.8%**	44%	46%	48%	49%					
Non-Employee costs		125.5	188.1	23%	23%	23%	22%					
				6%	5%	5%	5%					
Return on Equity		0.7%	9.1%	12%	12%	12%	12%					
Comp Costs % Average AUM		0.17%	0.14%	16%	14%	13%	12%					
Costs % Average AUM		-0.28%	-0.25%									
Operating margin		**22.7%**	**34.8%**	273.7	277.9	309.3	349.4					

Source: Company reports, Citi Investment Research and Analysis

Aberdeen Asset Management

Company description

Aberdeen is an international investment management group, managing assets for both institutions and private individuals. Its mix of assets and focus on institutional clients should provide it with a relatively stable, structurally growing base of AUM over time. At end-September 2011, it managed £169.9bn AUM.

Investment strategy

We rate Aberdeen Buy.

1. Despite industry-wide EM Equity outflows in Feb / Mar and Aug / Sep 2011, Aberdeen saw net inflows here - albeit at a lower level. We remain confident in the group's ability to ride out current conditions, despite sharp EM Equity Market falls. We see the industry outlook for EM equity flows and markets improving in 2012.

2. Aberdeen is seeing gross inflows at higher margins than existing AUM. Group management fee revenue margins should rise, unless market falls disproportionately affect higher margin areas (e.g. equities)

3. Stronger balance sheet than in the last down-cycle. Aberdeen is in a net cash position, and we forecast will have a regulatory capital surplus without the need for a goodwill waiver by end Sep 2012E. This puts it in a strong position to fund share buybacks in 2013, in our view.

Valuation

We derive our price target using a DCF approach. We value the net operating profit after tax (i.e. before charging interest or other financing costs) on a DCF basis, using an 11.7% discount rate (3.25% risk-free rate, 6.5% equity risk premium and 1.30 beta). This suggests an enterprise value of 263p per share.

We then make the following adjustments to this value:

1. We add forecast Sep-12E net cash per share (1.7p).

2. We subtract the value attributable to holders of Aberdeen's preference share capital (0.4p) and perpetual capital securities (17.6p), as well as the value of the group's pension fund deficit (2.6p).

In this way, we derive a 244p fair value, which we use to support our rounded 245p target price.

Risks

Aberdeen has successfully reduced its operational and financial leverage over the last 2 years, positioning it well for volatile market conditions.

We note the following company specific/industry risks which could affect the achievement of our target price:

1. Stronger market declines than we forecast - particularly in higher margin Emerging Market and Asian equities. This could de-rail or delay the rising revenue margin story at Aberdeen.

2. Weaker or more negative fund flows than we forecast. So far, Aberdeen's institutional investor base has proven stickier in "high beta" asset classes than that of its peers. But sustained market falls / investor capitulation could end this, with negative impact on Aberdeen AUM, revenue margins and earnings progression.

3. Risk of the company re-entering 'acquisition mode' now that its balance sheet has been considerably strengthened. We see this risk as low.

If the impact of these risk factors is more negative than we anticipate, then the share price could fall significantly below our target price.

Company Focus

Ashmore Group (ASHM.L)

Look to the Longer Term

■ Company Update

Haley A Tam, CFA
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haley.tam@citi.com

Buy	**1**
Price (14 Dec 11)	£3.20
Target price	£3.75
Expected share price return	17.2%
Expected dividend yield	5.6%
Expected total return	**22.8%**
Market Cap	£2,264M
	US$3,505M

Price Performance
(RIC: ASHM.L, BB: ASHM LN)

- **Summary** — Ashmore's long term structural growth story looks attractive. Set against this, near-term fund flow and management fee margin outlook is more tricky. But the balance sheet is strong, the investment performance track record is good, and compensation costs are the most variable in the sector, in our view.

- **EM Debt** — Investors remain under-allocated to this segment, in our view. Structural growth in allocations should support growth in Ashmore's EM debt AUM longer term. Near-term, industry flows have dried up (Figure 31) and so Ashmore's Q2 statement in January is likely to reflect this, in our view.

- **Management fee margins** — Acquisition of EMM has brought down group margins significantly FY12, not helped either by flow bias to low margin currency overlay and segregated mandates. We forecast continued gradual decline in margins this year, before new fund flows into higher margin areas (special situations funds, new EMM Equity flows at higher margin) offset this in the future.

- **Compensation costs** — Ashmore manages its variable compensation costs to a target 20% to 25% of EBIT net of variable compensation costs. These costs themselves make up 60% of all group costs – by far the highest proportion of all the asset managers (Figure 51). This makes Ashmore particularly well suited to respond to a difficult revenue environment in 2012, in our view.

- **EM Equity Option** — Ashmore's acquisition of EMM provides it with an "option" on EM Equity growth in the future. This is an FY13 option at best – Ashmore needs to repair EMM's performance track record and use its own distribution network to sell these funds. But, if successful, it should be able to bring in funds at higher revenue margins than existing EMM business.

- **M&A risk** — We forecast Ashmore will generate £123m free cash flow FY12, rising to £162m FY13. In the past, this has been used to invest in organic growth and make small acquisitions, like EMM. Ashmore has indicated it is on the look out for further local EM Equity operations.

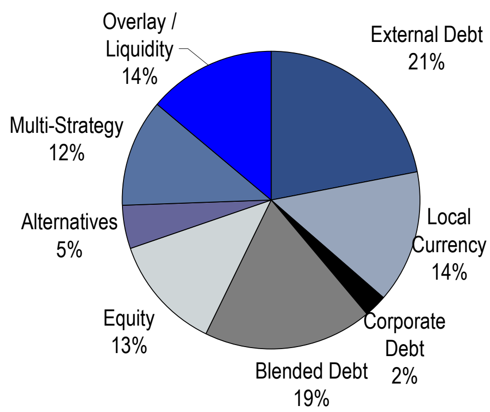
- **Buy, 375p target** — We rate the stock Buy with a 375p price target. At 11.8x Calendar Year 2012E PE, it trades at a significant premium to peers (9.9x), reflecting its better long term AUM growth outlook, in our view.

Ashmore Group (GBP)

Year to 30 Jun	2010A	2011A	2012E	2013E	2014E
Net Income (£M)	160.0	189.0	165.1	201.5	237.1
Diluted EPS (p)	22.5	26.6	23.3	28.5	33.5
Diluted EPS (Old) (p)	22.5	26.6	23.3	28.5	33.5
PE (x)	14.2	12.0	13.7	11.2	9.6
P/BV (x)	5.8	4.3	3.7	3.4	3.0
DPS (p)	13.0	14.5	14.6	18.0	21.0
Net Div Yield (%)	4.1	4.5	4.6	5.6	6.6
ROE (%)	47.1	43.5	30.4	32.4	34.2

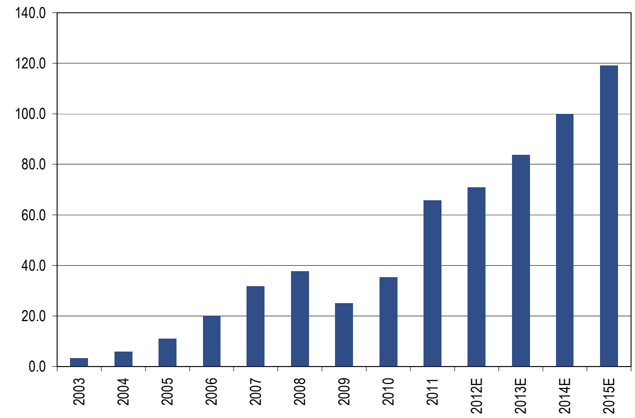
Key Charts

Figure 102. Ashmore – End September AUM, split by Theme



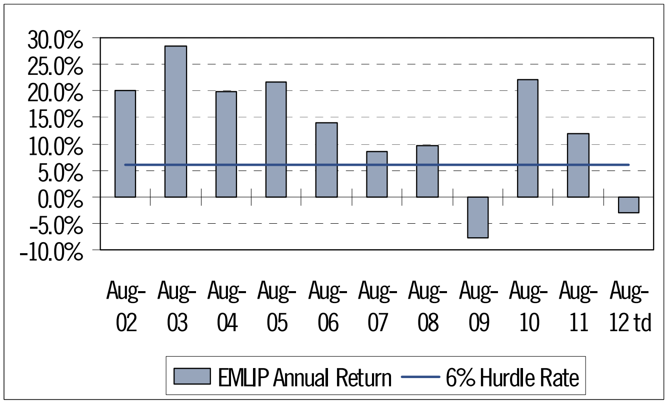
Source: Company Reports

Figure 103. Ashmore – Forecast AUM progression, Jun 03 – Jun 15E



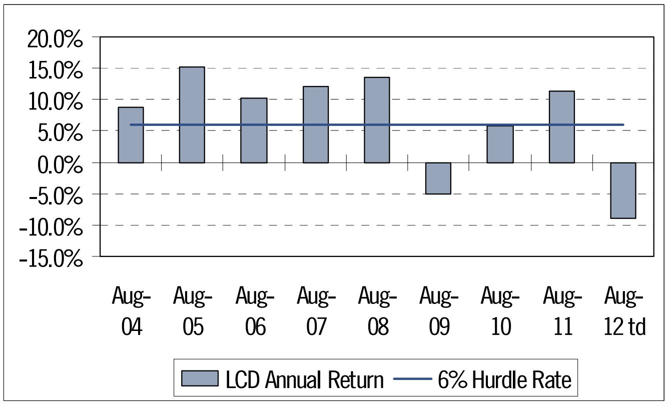
Source: Company Reports, Citi Investment Research and Analysis

Figure 104. EMLIP Fund annual returns vs. performance fee hurdle



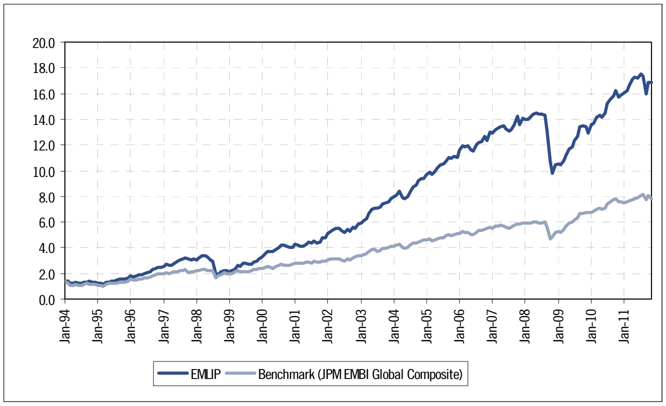
Source: Ashmore Group, Citi Investment Research and Analysis. EMLIP is a flagship External Debt investment fund, with $3.95bn AUM at end November 2011

Figure 105. LCD Fund annual returns vs. performance fee hurdle



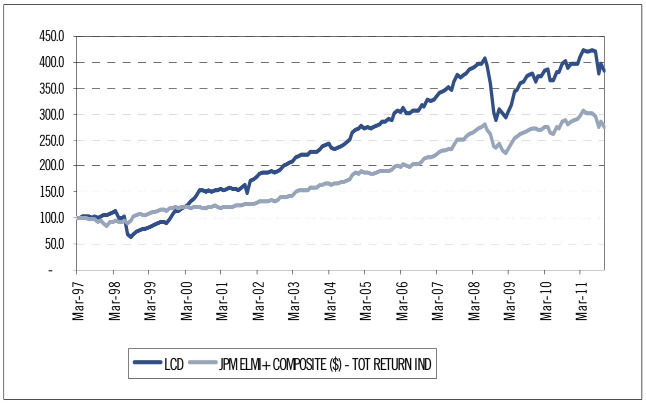
Source: Ashmore Group, Citi Investment Research and Analysis. LCD is a flagship Local Currency investment fund, with $952m AUM at end November 2011

Figure 106. EMLIP fund performance vs. benchmark



Source: Ashmore Group, Citi Investment Research and Analysis

Figure 107. LCD fund performance vs. benchmark



Source: Ashmore Group, Citi Investment Research and Analysis

Financial Forecasts

Figure 108. Ashmore – Financial History and Forecasts

In £ millions unless otherwise stated	**2008**	**2009**	**2010**	**2011**	**H112E**	**H212E**	**2012E**	**2013E**	**2014E**	**2008**	**2009**	**2010**	**2011E**	**2012E**	**2013E**	**2014E**
Opening AUM $bn	31.6	37.5	24.9	35.3	65.8	62.6	65.8	70.7	83.6							
Net subscriptions $bn	3.0	-7.5	7.6	25.4	1.1	3.8	4.8	7.4	9.6							
Market appreciation $bn	2.9	-5.1	2.8	5.1	-4.3	4.4	0.1	5.5	6.6							
Closing AUM $bn	**37.5**	**24.9**	**35.3**	**65.8**	**62.6**	**70.7**	**70.7**	**83.6**	**99.9**							
Comprising:																
External Debt $bn	20.9	14.7	19.4	14.3	13.8	14.9	14.9	16.4	18.2	-1%	-30%	32%	-26%	4%	11%	11%
Blended Debt $bn				10.9	11.8	13.7	13.7	17.7	22.4							
Local Currency $bn	7.2	4.2	7.0	9.4	8.5	10.2	10.2	12.2	15.2	44%	-42%	67%	34%	8%	20%	25%
Alternatives $bn	4.6	3.3	3.4	2.8	2.7	2.8	2.8	3.5	3.8	34%	-28%	3%	-18%	1%	23%	10%
Equity $bn	0.5	0.1	0.2	10.1	8.0	8.9	8.9	10.0	11.5	-75%	-80%	100%	4950%	-12%	13%	15%
Corporate High Yield $bn	0.5	0.5	0.9	1.3	1.7	2.3	2.3	3.1	4.2		0%	80%	44%	75%	36%	36%
Multi-Strategy $bn	3.8	2.0	2.0	8.4	7.6	9.1	9.1	10.7	12.7		-47%	0%	320%	8%	18%	19%
Overlay / Liquidity $bn	0.0	0.1	2.4	8.6	8.3	8.9	8.9	10.0	11.7			2300%	258%	4%	12%	17%
Total AuM, US$bn	**37.5**	**24.9**	**35.3**	**65.8**	**62.6**	**70.7**	**70.7**	**83.6**	**99.9**	19%	-34%	42%	86%	7%	18%	19%
Revenues, £m																
Total Net Management Fees	182.0	183.2	189.9	249.3	158.2	158.6	316.8	349.4	408.8	44%	1%	4%	31%	27%	10%	17%
Management Fee Margin (bp)	104	107	95	86	81	80	77	77	77	11%	3%	-12%	-9%	-11%	0%	1%
Total Performance Fees	44.7	52.5	82.9	85.4	19.0	6.0	25.0	59.3	63.1	119%	17%	58%	3%	-71%	137%	6%
Other revenues	13.3	-32.2	13.4	-0.9	3.0	-3.0	0.0	0.0	0.0	2%	-342%	-142%	-107%			
Net Revenues	**240.0**	**203.5**	**286.2**	**333.8**	**180.2**	**161.6**	**341.8**	**408.7**	**471.9**	**50%**	**-15%**	**41%**	**17%**	**2%**	**20%**	**15%**
Employee Costs – Variable	-40.3	-24.5	-45.8	-56.2	-29.9	-29.3	-59.1	-74.0	-88.8	47%	-39%	87%	23%	5%	25%	20%
Employee Costs - Non Variable	-7.4	-11.5	-13.0	-15.3	-11.4	-13.2	-24.6	-26.9	-29.0	42%	55%	13%	18%	61%	9%	8%
Total Employee Costs	-47.7	-36.0	-58.8	-71.5	-41.3	-42.5	-83.7	-100.9	-117.8	46%	-25%	63%	22%	17%	21%	17%
Depreciation and Amortisation	-0.3	-0.8	-1.3	-1.3	-3.5	-5.5	-9.0	-9.0	-9.0	200%	167%	63%	0%	592%	0%	0%
Other Costs	-10.8	-16.1	-16.8	-21.6	-16.0	-10.6	-26.6	-28.4	-30.1	100%	49%	4%	29%	23%	7%	6%
Total Costs	**-58.8**	**-52.9**	**-76.9**	**-94.4**	**-60.8**	**-58.5**	**-119.3**	**-138.3**	**-156.9**	**54%**	**-10%**	**45%**	**23%**	**26%**	**16%**	**13%**
Operating Profits	181.2	150.6	209.3	239.4	119.4	103.0	222.5	270.3	314.9	49%	-17%	39%	14%	-7%	22%	17%
Operating Profit Margin, %	75.5%	74.0%	73.1%	71.7%	66.3%	63.8%	65.1%	66.2%	66.7%							
Net Interest	15.0	9.2	7.9	6.5	2.5	3.0	5.5	7.5	7.5	55%	-39%	-14%	-18%	-15%	36%	0%
PBT, £m	196.2	159.8	217.2	245.9	121.9	106.0	228.0	277.8	322.4	49%	-19%	36%	13%	-7%	22%	16%
Tax	-55.2	-44.3	-56.6	0.0	0.0	0.0	-57.0	-66.7	-74.2							
Minority Interest	-0.2	-0.5	-0.6	-1.2	-2.8	-3.0	-5.8	-9.7	-11.2	100%	150%	20%	100%	385%	66%	16%
Attributable Profits	140.8	115.0	160.0	189.0	87.5	77.6	165.1	201.5	237.1	54%	-18%	39%	18%	-13%	22%	18%
EBIT before Variable Compensation	221.5	175.1	255.1	295.6	149.3	132.3	281.6	344.4	403.8	49%	-21%	46%	16%	-5%	22%	17%
Var Comp as % EBIT before VC	18.2%	14.0%	18.0%	19.0%	20.0%	22.1%	21.0%	21.5%	22.0%							
Basic EPS, Pence	21.0	17.1	23.9	28.1	13.0	11.1	24.1	29.1	34.0	54%	-19%	39%	18%	-14%	21%	17%
Diluted EPS, Pence	**19.9**	**16.0**	**22.5**	**26.6**	**12.3**	**11.0**	**23.3**	**28.5**	**33.5**	**54%**	**-20%**	**41%**	**18%**	**-13%**	**22%**	**18%**
DPS, Pence	12.0	12.0	13.0	14.5	4.9	9.7	14.6	18.0	21.0	33%	0%	8%	12%	1%	23%	17%
Average Number of Basic Shares, m	669.7	671.7	669.9	673.3	673.3	698.0	684.7	691.5	697.0	0%	0%	0%	1%	2%	1%	1%
Average Number of Diluted Shares, m	708.0	719.0	710.4	709.9	709.9	708.2	709.1	707.8	707.8	0%	2%	-1%	0%	0%	0%	0%

Source: Company Reports and CIRA Estimates

Ashmore Group

Company description

Ashmore is an emerging markets investment manager that focuses on four investment themes: External Debt, Local Currency, Special Situations and Equity.

The group managed $65.8bn AUM at June 2011, including the acquired EMM assets. Asset mix: 35% External Debt, 17% Local Currency, 15% Equity, 13% Multi-Strategy, 14% Other, and 6% Special Situations and High Yield.

Investment strategy

We rate Ashmore Group Buy.

Structural growth. Ashmore looks well-positioned to attract its share of structural growth in institutional EM debt flows. Brand and performance record is strong.

Cyclical headwinds. EM debt market returns turned worse in September 2011. Daily and short notice monthly liquidity in Ashmore funds makes it vulnerable to "panic" outflows. Poor Sep performance reduces the likelihood of significant performance fee generation this year (FY Jun 12). Ashmore share price has fallen, but there is risk that short term newsflow and market trends continue to be negative.

We rate the stock Buy despite our concerns over near-term earnings trends, as we believe in the longer term structural EM growth story.

Valuation

To derive a fair value for the group, we use a four-stage DCF model, in which we explicitly forecast management fee cash flows out to year-end June 2015 (the first stage). In the second stage, we assume slowing AUM growth and a steady decline in management fee margins. In the third stage, we assume long-term growth in AUM of 5% p.a.. In the final stage, we assume terminal growth of 2% p.a. in AUM into perpetuity, at stable margins.

We use a 13.2% discount rate, reflecting our assumptions of i) a 3.25% risk-free rate, ii) beta of 1.65 (source: Datastream), and iii) 6.0% equity risk premium.

Adding in performance fees at 7x forecast earnings and net cash balance at 9% of par value suggests a fair value for the group of £2,657m, or 375p per share, which supports our target price.

We include net cash at 9% of par because we assume it can generate a long-term return of 3% vs. 13.2% discount rate and 2% long-term growth rate, giving it a theoretical price to book value of (3%-2%)/(13.2%-2%) = 9%.

Risks

The following risks could prevent the achievement of our target price:

1. Deterioration in the wider credit environment, or a sharp price correction in EM debt markets, leading to poor performance of investment portfolios, poorer fund flows and lower performance fee earnings than we forecast.

2. External macroeconomic shocks in EM countries could result in a decline in revenue from funds.

3. Over 60% of shares are held by company staff and directors. Even the limited free float is closely held, with a couple of institutions holding >5% each. As such, low trading liquidity could lead to high volatility in the share price.

Conversely, if any of these factors proves to have less of an effect than we anticipate, the stock could materially outperform our target.

Company Focus

F&C Asset Management Plc (FCAM.L)
All about Part II

- Company Update
- Estimate Change

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Neutral	**2**
Price (14 Dec 11)	£0.65
Target price	-
Expected share price return	-
Expected dividend yield	-
Expected total return	**-**
Market Cap	£346M
	US$535M

Price Performance
(RIC: FCAM.L, BB: FCAM LN)

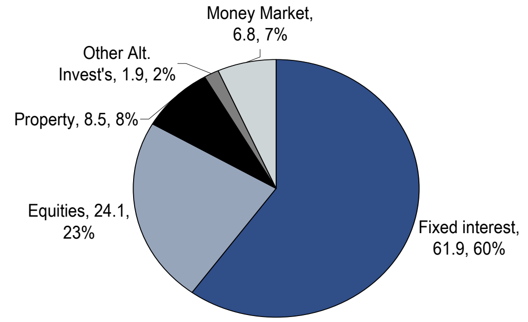
- **Summary** — F&C faces the possible loss of insurance contracts from 2014 onwards. Management's ability to prepare the business to offset the impact of these losses is crucial to the investment case for F&C.
- **Cost cutting** — F&C offers significant FY12E EPS growth, driven by £33m cost cuts including those set out in Stage One of its Strategic Review on 26 October. This includes £16.7m staff cost savings announced with the Strategic Review, + £12m outsourcing cost savings. The danger is that F&C inadvertently cuts into "muscle" as well as trimming surplus costs, putting the business in a more difficult position for growth longer term.
- **Pro Forma 8.2p** — Adjusting 2010 EPS for the planned cost cuts and use of surplus cashflow to pay down debt as soon as possible (thus reducing interest expense to zero), F&C estimates its business, excluding the insurance contracts, generates 8.2p EPS.
- **More than pro-forma?** — The extent to which F&C will be able to generate more than pro-forma EPS in 2014, will depend on i) market moves from 2010 to 2014, ii) the success, or otherwise, of F&C's strategic reviews in stimulating growth in institutional and retail businesses, iii) the extent of loss of insurance contracts from October 2013 onwards
- **Part II** — F&C is expected to announce part II of its Strategic Review, relating to the Retail and Investment Trust businesses, in H1 2012 – most likely in Q2 2012 after the group's FY11 results have been announced.
- **Insurance Contract AUM** — £66.5bn AUM was managed for "Strategic Partners" at end 2010. This contributed £83.1m revenue in 2010, comprising £31.3m from Friends Provident assets, £30.4m from Eureko assets and £21.5m from BCP assets. Friends Provident AUM is a mixture of rolling 6 month notice and October 2014 contract expiry AUM. Eureko AUM is a mixture of October 2013 and 2015 contract expiry AUM. BCP AUM is on rolling 3 months notice – although this is in the process of being renegotiated.
- **Neutral, "Wild Card"** — We rate F&C Neutral. We do think F&C has the potential to see significant share price accretion this year, if new Chairman Edward Bramson's Strategic Review is successful. But execution risks are high, in our view, hence our Neutral rating.
- **Lower EPS** — We reduce EPS to reflect lower performance fee expectations.

F&C Asset Management Plc (GBP)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Net Income (£M)	22.5	29.4	28.4	47.2	53.7
Diluted EPS (p)	4.5	5.9	5.5	9.2	10.5
Diluted EPS (Old) (p)	4.5	5.9	6.1	9.5	10.4
PE (x)	14.4	11.1	11.8	7.1	6.2
P/BV (x)	0.6	0.6	0.7	0.6	0.6
DPS (p)	6.0	3.0	3.0	3.2	3.4
Net Div Yield (%)	9.2	4.6	4.6	4.9	5.2
ROE (%)	2.9	-3.2	-4.1	1.0	2.3

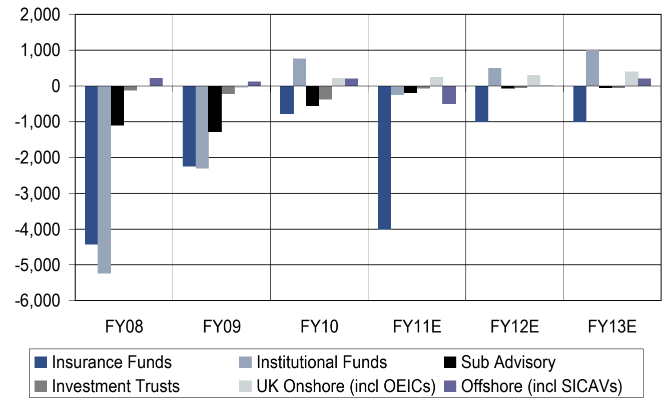
Key Charts

Figure 109. F&C – End September AUM split by asset class



Source: Company Data

Figure 110. F&C – Historic and forecast AUM flows by asset class



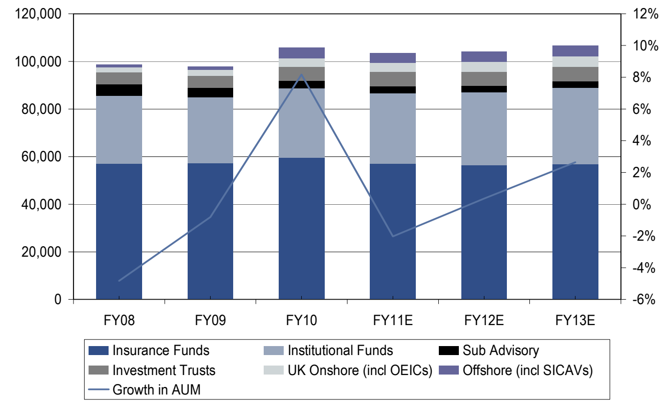
Source: Company data, Citi Investment Research and Analysis

Figure 111. Details of Insurance Contract AUM "Strategic Partners"

		AUM £bn	Revenues £m	Notice period	Earliest expiry
Eureko	Ned	21.0	26.1	12 months	31-Oct-13
Friends First	Ire	2.5	4.3	12 months	31-Oct-15
Friends Prov	UK	28.2	10.7	Rolling 6 months	
			20.6	12 months	11-Oct-14
Millennium BCP	Ned	14.8	21.5	Rolling 3 months	
		66.5	**83.1**		

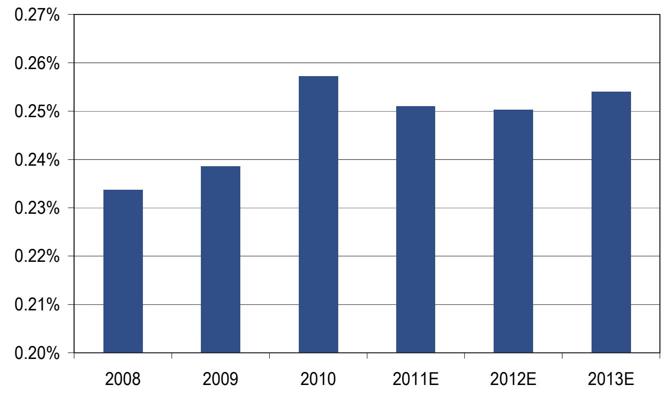
Source: Company Data

Figure 112. F&C Historic and Forecast AUM trend



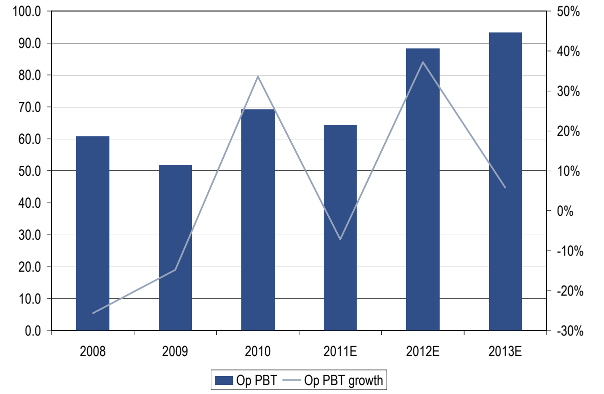
Source: Company data, Citi Investment Research and Analysis

Figure 113. F&C Revenue margins



Source: Company data, Citi Investment Research and Analysis

Figure 114. F&C Operating PBT History and Forecast



Source: Company data, Citi Investment Research and Analysis

Financial Forecasts

Figure 115. F&C Financial History and Forecast £m

	Abs						YoY					
Year end: 31 December	**2008**	**2009**	**2010**	**2011E**	**2012E**	**2013E**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Performance fees	7.9	18.7	12.9	20.6	22.7	25.0	-62%	137%	-31%	60%	10%	10%
Management fees	236.3	219.1	245.3	264.2	259.9	267.7	-4%	-7%	12%	8%	-2%	3%
Investment Management Fees	**244.2**	**237.8**	**258.2**	**284.8**	**282.6**	**292.7**	**-9%**	**-3%**	**9%**	**10%**	**-1%**	**4%**
Other Income	1.1	4.1	1.6	6.8	7.5	8.2	-90%	273%	-61%	325%	10%	10%
Fee & Commission expenses	-15	-16.8	-16.6	-19.6	-21.5	-23.7	16%	9%	-1%	18%	10%	10%
Total Revenues	**229.9**	**225.1**	**243.2**	**272.1**	**268.5**	**277.2**	**-13%**	**-2%**	**8%**	**12%**	**-1%**	**3%**
Total Mgt Revenues to Av FUM, %	0.234%	0.239%	0.257%	0.251%	0.250%	0.254%						
Staff costs	-92.2	-87.6	-118.0	-135.3	-121.3	-123.7	3%	-5%	35%	15%	-10%	2%
Bonus	-20.8	-29.0					-33%	39%				
IT & Communication	-17.6	-15.1	-15.8	-20.0	-14.4	-14.7	4%	-14%	5%	26%	-28%	2%
Premises	-10.5	-11.7	-11.0	-15.4	-14.7	-15.0	-17%	11%	-6%	40%	-4%	2%
Promotion and client servicing	-7.6	-5.5	-6.6	-11.2	-5.4	-5.6	13%	-28%	20%	71%	-51%	2%
3P admin	-6.7		-7.1	-5.3	-4.4	-4.4	-31%			-26%	-17%	2%
Other expenses	-15.5	-15.9	-16.5	-20.6	-20.1	-20.5	-12%	3%	4%	25%	-2%	2%
Operating expenses	**-170.9**	**-164.8**	**-175.0**	**-207.8**	**-180.3**	**-183.9**	**-7%**	**-4%**	**6%**	**19%**	**-13%**	**2%**
Op expense / income ratio	-74%	-73%	-72%	-76%	-67%	-66%						
Op expense / average AUM ratio	0.169%	0.168%	0.178%	0.197%	0.174%	0.175%						
Amortisation of intangible assets	-48.9	-49.8	-50.7	-50.7	-50.7	-50.7						
Impairment of intangible assets	-48.3	0										
Exceptional costs	-22.9	-17.8	-21.6	-15.8	-5.8	-2.9						
Total Costs	**-291**	**-232.4**	**-247.3**	**-274.3**	**-236.8**	**-237.5**	**23%**	**-20%**	**6%**	**11%**	**-14%**	**0%**
Cost income ratio	-127%	-103%	-102%	-101%	-88%	-86%						
Comp Rev Ratio	-49%	-52%	-49%	-50%	-45%	-45%						
Operating profits pre amortisaiton/impairment	**60.8**	**51.8**	**69.2**	**64.3**	**88.2**	**93.3**	**-26%**	**-15%**	**34%**	**-7%**	**37%**	**6%**
Operating Profit Margin, %	26.4%	23.0%	28.5%	23.6%	32.8%	33.6%	-14%	-13%	24%	-17%	39%	2%
Total Operating Profits	-59.3	-5.9	-3.1	-2.2	31.7	39.7						
Capital gains		27.9										
Operating profits post restructuring	-59.3	22.0	-3.1	-2.2	31.7	39.7	-306%	-137%	-114%	-28%	-1524%	25%
Net Interest Income/(expense)	-3.7	-18.8	-22.5	-21.2	-20.2	-17.4	6%	408%	20%	-6%	-4%	-14%
Impairment of associates and other financial investments	-0.1	5.5	6.4									
Loss on disposal of associates	-4.1											
PBT pre exceptionals/amortisation	**57.0**	**33.0**	**46.7**	**43.1**	**67.9**	**75.9**	**-28%**	**-42%**	**42%**	**-8%**	**58%**	**12%**
PBT	-67.2	8.7	-19.2	-23.4	11.4	22.3	-359%	-113%	-321%	22%	-149%	95%
Tax	16.7	10.0	5.8	6.2	-2.9	-5.4						
Exceptional tax	-33.5	-16.8	15.8	-17.5	-14.3	-13.0						
Total PAT	-50.5	18.7	-13.4	-17.3	8.5	16.9	-370%	-137%	-172%	29%	-149%	97%
Minority interests	-1.9	-2.8	-3.2	-3.4	-3.5	-3.7						
Net profits pre-exceptionals/amortisation	**38.3**	**22.5**	**29.4**	**28.4**	**47.2**	**53.7**	**-24%**	**-41%**	**31%**	**-4%**	**66%**	**14%**
Net profits	-52.4	15.9	-16.6	-20.6	5.0	13.2						
Total exceptionals	90.7	6.6	46.0	49.0	42.2	40.6						
Dividends	-29.6	-29.5	-15.0	-15.4	-16.4	-18.2						
Retained profits	-82.0	-13.6	-31.6	-36.0	-11.4	-5.0						
RATIOS												
EPS - basic	-10.6	3.2	-3.3	-4.0	1.0	2.5						
Underlying diluted EPS	**7.7**	**4.5**	**5.9**	**5.5**	**9.2**	**10.5**	**-24%**	**-41%**	**30%**	**-6%**	**66%**	**14%**
DPS	**6.0**	**6.0**	**3.0**	**3.0**	**3.2**	**3.4**	**0%**	**0%**	**-50%**	**0%**	**7%**	**6%**
Payout ratio	78%	133%	51%	54%	35%	33%						

Source: Company reports, Citi Investment Research and Analysis

F&C Asset Management Plc

Company description

F&C can trace its origins as an asset manager back to 1868. The current F&C Asset Management Group, however, was created out of the October 2004 merger of ISIS and F&C Group owned by Dutch insurer, Eureko.

The group is a pan-European asset manager with 40% of its operations in the UK, 30% in the Netherlands, 15% in Portugal and 15% in Ireland / Germany / France and other areas. The manager is predominantly an institutional manager with a large proportion of assets managed under fixed term contracts for shareholders Eureko.

Investment strategy

We rate F&C Neutral.

Mr. Bramson has been conducting a review of strategy since Feb 11. The first instalment was announced in Oct 11, with more promised in H1 12.

The first stage is to cut costs, putting F&C in a "break even position" even if it loses all its fixed term insurance mandates in the coming three years.

F&C also intends to build scale in its institutional business, particularly in fixed income and EM debt. It views all growth here as incrementally profit positive, as it does not expect its cost base to have to grow significantly to achieve this.

We believe there is great potential for longer-term EPS growth. However, we prefer to wait until there is more information on the Retail strategy (expected H1 12).

Valuation

This company has a Neutral rating. We have not assigned a target price and therefore no valuation methodology is applicable.

Risks

The company faces ongoing uncertainty given its current review of strategy. Whilst the first stage has been announced (October 2011), this only relates to the institutional business. The bulk of group profit is generated by retail, and we must wait until H1 2012 for further information on strategic direction here.

Downside risks include:

- A resurgence of outflows due to poor performance or macro shifts
- An inability to renegotiate or extend long-term insurance contracts.
- FX-rate risk, with >50% AUM denominated in Euro.
- Significant detrimental impact from planned cost cuts, or swifter rebuild of costs again (e.g. in marketing and sales) to support ambitious sales plans.
- Greater share count expansion due to deferred compensation arrangements (Thames River) than we expect.

Upside risks include:

- Much stronger inflows due to strategic review initiatives than we expect.
- Better trends in equity or bond markets than we expect.

Company Focus

Hargreaves Lansdown PLC (HRGV.L)

A Difficult Year

- Company Update
- Rating Change
- Target Price Change

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Neutral	**2**
from Buy	
Price (14 Dec 11)	£4.40
Target price	£4.50
from £5.70	
Expected share price return	2.2%
Expected dividend yield	4.8%
Expected total return	**7.0%**
Market Cap	£2,088M
	US$3,232M

Price Performance
(RIC: HRGV.L, BB: HL/ LN)

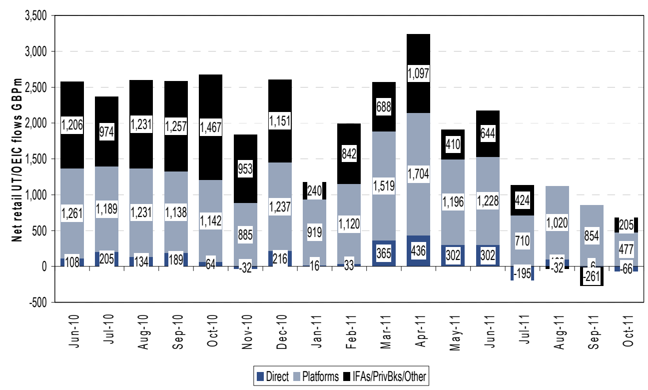
- **Summary** — 2012 looks set to be a challenging year. In the face of volatile markets / recession fears, retail investor risk appetite is low. Implementation of the Retail Distribution Review proposals on 1 January 2013 looks set to introduce confusion to retail fund distribution. We believe HL will be a net winner post-RDR, but the glide path to that position looks likely to be an uneven one.
- **Near-term fund flow impact** — HL has made a virtue of seeing better than industry fund flows. But, even so, we believe the level of fund flows in 2012 will likely be lower than in recent years, reflecting greater market uncertainty and lower disposable incomes in the UK. This comes at an unfortunate time, as we expect significant disruption to the HL business model this year.
- **Execution Risk** — 2012 looks set to be a year of considerable execution risk for HL. It has already announced new tariff charging structures for stock-broking and tracker (and other previously non-charged for) funds. We think it likely that the firm will announce further changes in 2012, in preparation for the changes to the retail distribution landscape that will come into effect from 1 Jan 2013.
- **Uneven playing field** — With adviser changes from 1 January 2013, and any enforced platform changes unlikely until 2014 or even later, our concern is that HL will find itself operating on an uneven playing field. If fund firms offer advisers lower cost unit classes in their funds, Vantage customers may also want access to those classes. But, without the ability to explicitly charge customers to use Vantage, this will likely be hard to achieve. HL's ability to educate its customers on the regulatory changes will be key to its continued success, in our view.
- **Longer term positive** — With the advent of explicit adviser charging from Jan 2013 and platform charging after that (perhaps 2014), it will become clear to investors how much they gain from using Vantage vs. IFAs. We believe this will lead to structural growth in HL's target Vantage market. At present, we estimate HL retains (net of loyalty bonuses) Vantage commissions of around 60bp, leading to a typical all-in cost of fund investment of around 1.2% to 1.3% p.a. for customers, i.e. some 20bp to 30bp lower than might be paid through IFAs.
- **Neutral, 450p** — We believe direct to retail platforms (including Vantage) will be the investment channel of choice for retail investors post-RDR. But we downgrade HL to Neutral from Buy, reflecting the headwinds we see for 2012, and the impact we see this having on its premium PE rating (18.4x CY2012E vs. peer group 9.9x). For this same reason, we also lower our TP today to reflect a new, lower implied 'fair value' PE.

Hargreaves Lansdown PLC (GBP)

Year to 30 Jun	2010A	2011A	2012E	2013E	2014E
Net Income (£M)	65.0	94.1	107.3	117.9	137.1
Diluted EPS (p)	13.9	20.1	22.9	25.1	29.2
Diluted EPS (Old) (p)	13.9	20.1	22.9	25.1	29.2
PE (x)	31.7	21.9	19.2	17.5	15.1
P/BV (x)	30.9	15.6	13.8	12.3	10.8
DPS (p)	11.9	18.9	21.4	24.0	26.7
Net Div Yield (%)	2.7	4.3	4.9	5.4	6.1
ROE (%)	81.3	93.3	76.9	75.2	77.2

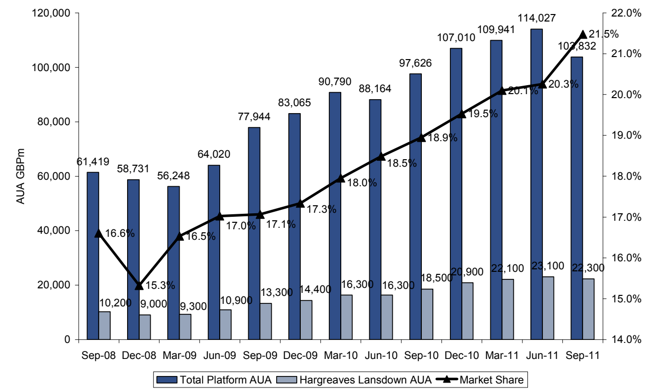
Key Charts

Figure 116. UK Retail Net Fund Flows – by Distribution Channel



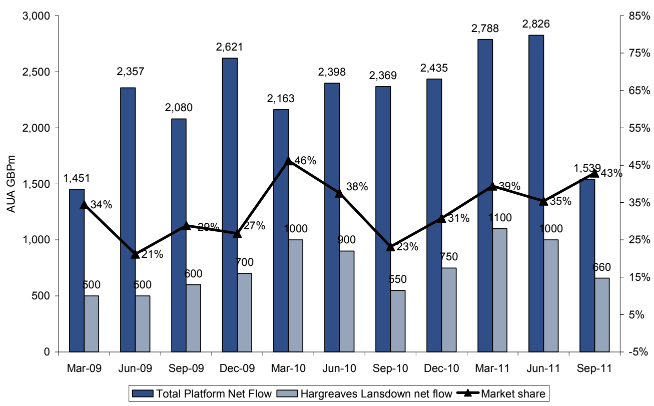
Source: Investment Management Association

Figure 117. Hargreaves Lansdown market share of total platforms AUA



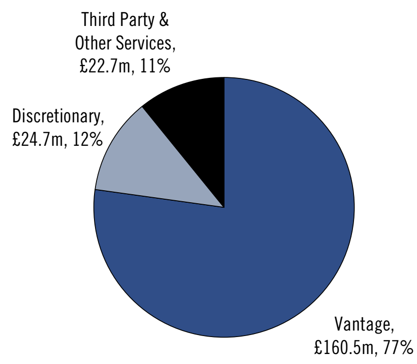
Source: Company data, Investment Management Association

Figure 118. Hargreaves Lansdown net flow share vs. all platforms



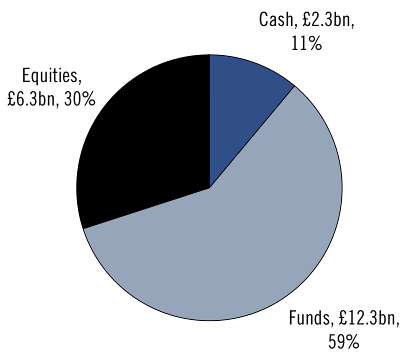
Source: Company data, Investment Management Association

Figure 119. HL – Composition of FY June 2011 revenues



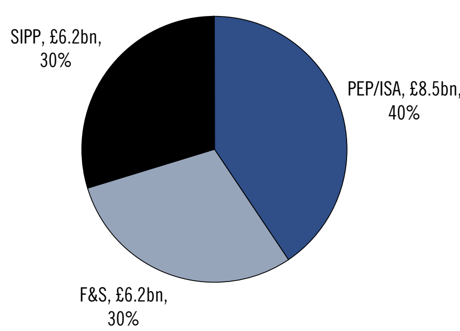
Source: Company data

Figure 120. Vantage AUA end September 2011-split by investment type



Source: Company Reports

Figure 121. Vantage AUA end September 2011 – split by wrapper



Source: Company Reports

Financial Forecasts

Figure 122. Hargreaves Lansdown – Summary Financial History and Forecasts

June year-end (£m)	2009	2010	2011	Q112	Q212E	H112E	Q312E	Q412E	H212E	2012E	2013E	2014E	2010	2011	2012E	2013E	2014E
Vantage AUA	10,900	16,300	23,100	20,900	21,975	21,975	23,255	24,515	24,515	24,515	29,645	35,865					
Portfolio Management Services (PMS)	990	1,200	1,500	1,400	1,450	1,450	1,430	1,420	1,420	1,420	1,640	1,880					
Total Asset under administration	**11,890**	**17,500**	**24,600**	**22,300**	**23,425**	**23,425**	**24,685**	**25,935**	**25,935**	**25,935**	**31,285**	**37,745**	**47%**	**41%**	**5%**	**21%**	**21%**
Average AUA	10,478	15,611	22,013	23,450	22,863	23,156	24,055	25,310	24,683	23,919	28,610	34,515					
Vantage AUA b/f	10,200	10,900	16,300	23,100	20,900	23,100	21,975	23,255	21,975	23,100	24,515	29,645					
Net new business inflows	1,800	3,200	3,400	660	675	1,335	880	900	1,780	3,115	3,430	4,120	78%	6%	-8%	10%	20%
Net new business %	18%	29%	21%	3%	3%	6%	4%	4%	8%	13.0%	14.0%	13.9%					
Market movement & other	-1,000	2,200	3,400	-2,860	400	-2,460	400	360	760	-1,700	1,700	2,100					
% Market movement	-10%	20%	21%	-12%	2%	-11%	2%	2%	3%	-7%	7%	7%					
Vantage AUA c/f	**10,900**	**16,300**	**23,100**	**20,900**	**21,975**	**21,975**	**23,255**	**24,515**	**24,515**	**24,515**	**29,645**	**35,865**	**50%**	**42%**	**6%**	**21%**	**21%**
Revenue																	
Vantage	87.5	112.2	160.5	44.1	41.7	85.8	44.2	48.7	92.9	178.6	204.0	227.1	28%	43%	11%	14%	11%
Discretionary	19.3	22.9	24.7	6.6	6.5	13.1	6.4	6.5	12.9	26.0	27.0	30.1	19%	8%	5%	3%	12%
Third Party & Other Services	26	23.9	22.7	6.4	6.5	12.9	6.5	6.6	13.1	26.0	20.5	20.0	-8%	-5%	15%	-21%	-2%
Operating Revenue	**132.8**	**159.0**	**207.9**	**57.1**	**54.7**	**111.8**	**57.1**	**61.8**	**118.9**	**230.7**	**251.5**	**277.3**	**20%**	**31%**	**11%**	**9%**	**10%**
Interest on own cash				0.5													
Revenue	132.8	159.0	207.9	57.6	54.7	111.8	57.1	61.8	118.9	230.7	251.5	277.3					
Expenses																	
Staff Costs	37.2	36.0	40.1			22.0			22.2	44.3	47.8	51.7	-3%	11%	10%	8%	8%
Commission Payable	8.3	11.8	15.7			9.3			10.1	17.5	19.5	16.0	42%	33%	11%	12%	-18%
Marketing Spend	6.0	8.2	9.2			4.3			6.3	10.6	12.2	14.0	37%	12%	15%	15%	15%
Depreciation, Amortisation etc	1.9	2.7	2.6			1.2			1.7	2.9	3.1	3.5	42%	-4%	10%	10%	10%
Other Admin Costs/ Overheads	9.6	10.5	12.9			7.0			6.9	13.9	14.9	15.9	9%	23%	8%	7%	7%
Total	**63.0**	**69.2**	**80.5**			**43.8**			**47.1**	**89.1**	**97.5**	**101.0**	**10%**	**16%**	**11%**	**10%**	**4%**
Exceptional costs		4.4	3.0			0.0			0.0	0.0	0.0	0.0					
Total Costs	63.0	73.6	83.5			43.8			47.1	89.1	97.5	101.0	17%	13%	7%	10%	4%
Ratios																	
Staff Costs/ Revenue	28.0%	22.6%	19.3%			19.7%			18.7%	19.2%	19.0%	18.6%					
Staff Costs/ Total Costs	59.0%	52.0%	49.8%			50.2%			47.2%	49.7%	49.0%	51.1%					
Comm Payable / Vantage received	18.9%	17.2%	15.9%			19.0%			19.0%	16.0%	16.0%	12.8%					
Comm Payable / Avg AUA	0.14%	0.14%	0.13%			0.15%			0.15%	0.13%	0.12%	0.08%					
Marketing Costs/ Revenue	4.5%	5.2%	4.4%			3.8%			5.3%	4.6%	4.8%	5.0%					
Total Cost/ Income Ratio	47.4%	43.5%	38.7%			39.2%			39.6%	38.6%	38.8%	36.4%					
Operating profit margin	52.6%	56.5%	61.3%			60.8%			60.4%	61.4%	61.2%	63.6%					
Pre-Tax Profits																	
Headline operating profits		85.4	124.4			67.9			71.8	141.6	153.9	176.2					
Underlying Operating Profits	69.8	89.8	127.4			67.9			71.8	141.6	153.9	176.2	29%	42%	11%	9%	14%
Investment Revs, Associates & Other	3.2	0.9	1.6			0.9			1.5	2.4	2.8	3.5					
Underlying Pre-Tax Profits	**73.1**	**90.7**	**129.0**			**68.8**			**73.3**	**144.0**	**156.7**	**179.8**	**24%**	**42%**	**12%**	**9%**	**15%**
Average number of shares	466.2	468.4	469.1			469.1			469.1	469.1	469.1	469.1					
Underlying EPS (ex exceptionals)	**11.0**	**13.9**	**20.0**			**10.9**			**11.5**	**22.9**	**25.1**	**29.2**	**26%**	**44%**	**14%**	**10%**	**16%**
- Interim DPS	3.1	8.0	4.5			5.1				5.1	5.7	6.6					
- Final DPS	4.2	0.6	8.4						10.3	10.3	11.3	13.2					
- Specials DPS	2.8	3.3	6.0						6.0	6.0	7.0	7.0					
Total incl specials	10.1	11.9	18.9			5.1	0.0	0.0	16.3	21.4	24.0	26.7	18%	59%	14%	12%	12%

Source: Company reports, Citi Investment Research and Analysis

Figure 123. Hargreaves Lansdown – DCF Valuation 2012E-2021E £m

	30/06/2012	30/06/2013	30/06/2014	30/06/2015	30/06/2016	30/06/2017	30/06/2018	30/06/2019	30/06/2020	30/06/2021	30/06/2021
Average AUA	23,919	28,610	34,515	41,490	47,800	55,070	63,445	69,922	77,060	81,074	85,127
AUA Growth	9%	20%	21%	20%	15%	15%	15%	10%	10%	5%	5%
EBITA	141.6	153.9	176.2	209.8	235.6	264.7	297.3	319.5	343.3	352.1	360.5
EBITA Growth	14%	9%	14%	19%	12%	12%	12%	7%	7%	3%	2%
EBITA margin	0.59%	0.54%	0.51%	0.51%	0.49%	0.48%	0.47%	0.46%	0.45%	0.43%	0.42%
Notional Tax	-36.7	-38.8	-42.7	-50.9	-58.9	-66.2	-74.3	-79.9	-85.8	-88.0	-90.1
NOPAT	104.9	115.1	133.5	158.9	176.7	198.5	223.0	239.6	257.4	264.1	270.4
Depreciation	2.9	3.1	3.5	3.8	4.0	4.2	4.4	4.6	4.9	5.1	5.4
Capex	-2.0	-2.0	-2.1	-2.2	-2.3	-2.4	-2.6	-2.7	-2.8	-3.0	-3.1
FCFF	105.8	116.3	134.9	160.5	178.4	200.3	224.8	241.5	259.5	266.2	272.6
Discounted FCFF	99.5	97.7	101.4	107.8	107.1	107.4	107.8	103.5	99.4	91.1	93.3

PV of near term cash flows	1116			
Terminal value	964		Cost of Equity	11.9%
Total Value of Firm	2080		Risk Free Rate	3.25%
Net (Debt)/cash	7	11%	Beta	1.15
Equity Value	2087		Equity Risk Premium	7.5%
No. of Shares	463.5		Long Term Growth	2.0%
Valn (£)	**4.50**			
Target Price (p)	**450**			

Source: Citi Investment Research and Analysis

We reduce our target price for Hargreaves Lansdown from 570p to 450p today. This reflects a change in discount rate – we now use a Beta of 1.15 (source: Bloomberg, previously 0.65) and risk premium of 7.5% (previously 7.0%). The increase in risk premium and beta reflects the change in perception of the stock in the last 12 months – the higher risk associated with RDR is manifesting itself in a lower PE ratio for the stock.

Hargreaves Lansdown PLC

Company description

Hargreaves Lansdown is one of the leading providers/distributors of investment products direct to private investors in the UK. Its key offering is the Vantage wrap platform which provides a full range of tax efficient products (ISAs, SIPPs) as well as funds and direct equity holdings. The group also offers advice on portfolio management services, corporate pensions and third party products. The traditional customer base is mid-market (mass affluent), focused on financially literate people wishing to take control of their own affairs.

Investment strategy

We rate Hargreaves Lansdown Neutral.

We view the group's wrap platform, Vantage, as the key strategic proposition within the group. It is one of the leading wrap providers and we think its model, direct to the private investor, is in an underexploited, lower-cost niche.

But the Retail Distribution Review will lead to significant structural change in the UK retail fund industry from 1 January 2013. How the industry will implement RDR is uncertain, especially in relation to Platforms.

Although we believe Hargreaves Lansdown's strong starting position pre-RDR (15% UK retail fund flow market share in 2010) means it is well placed to thrive post-RDR, this period of industry change will be difficult, with the potential for market share loss.

Valuation

We believe DCF analysis captures the cash-generative nature of Hargreaves Lansdown's business model, the stickiness of its assets, and its absence of leverage.

We use an 11.9% cost of equity (derived from a risk-free rate of 3.25%, a beta of 1.15 (source: Bloomberg) and an equity risk premium of 7.5%, (higher than 5.5%-6.0% we use for asset managers, to reflect the stock-specific RDR-implementation risk). For long-term growth, we assume 2%.

We adjust for non-cash items and add back the group's net cash position at 10% of par value. We assume it can generate a long-term return of 3% vs. 11.9% discount rate and 2% long-term growth rate, giving it a theoretical Price to Book value of (3%-2%)/(11.9%-2%) = 10%.

This produces an equity value of £2,098m, or 450p per share, which supports our target price.

Our DCF includes assumptions that: i) net new business will fall FY12 due to market conditions, and be severely disrupted FY13 due to RDR implementation; ii) Vantage revenue margins fall by 14% from FY12 to FY14 due to RDR.

Risks

We note the following company specific/industry risks which could affect the achievement of our target price:

1. UK equity market levels affect the existing stock of assets under administration. Negative market movements cause downwards adjustments, which reduce revenue-generating capability. Conversely, positive market movements inflate revenues.

2. To date Hargreaves Lansdown has continued to attract strong net inflows due its compelling offering and a growing SIPP market. Any slowdown or reversal in flow momentum, due to increased competition or RDR for example, could affect the stock's rating.

3. Revenue margin pressure. Regulatory change and media attention have focused attention on the level of commission payments Hargreaves Lansdown receives from fund firms.

4. Co-founders Peter Hargreaves (60) and Stephen Lansdown (54) together own 52% of the company. Significant sales by either founder could hit the share price, although we note that this has not been the case with share sales so far.

5. Retail Distribution Review risk: As a UK retail fund platform, Hargreaves Lansdown faces uncertainty over its future operating environment.

Company Focus

- Company Update

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Buy	**1**
Price (14 Dec 11)	£1.06
Target price	£1.55
Expected share price return	46.1%
Expected dividend yield	6.6%
Expected total return	**52.7%**
Market Cap	£1,164M
	US$1,802M

Price Performance
(RIC: HGGH.L, BB: HGG LN)

Henderson Group Plc (HGGH.L)

Significant value and leverage to an equity market rebound

- **Value attractive, needs catalyst** — At current levels (7.9x 2012E, 7.0x 2013E p/e vs. peer group 9.9x, 8.3x), Henderson trades at a big discount to UK peers and, in our view, the stock offers attractive value. However, we expect a rising equity market or Henderson achieving a better variability in its cost base than the market currently predicts will be required for the stock to meaningfully advance.

- **Equity markets main driver of AuM**— With continuing subdued investor sentiment likely to impact flows, equity markets will likely be the biggest driver of AuM movements in the near-term. Over half of Henderson's AuM is in equities, although this proportion has reduced in the latest quarter due to market moves.

- **Good cost control expected** — As in previous downturns, we expect Henderson to demonstrate strong cost variability and control, reducing the impact of the equity market fall on profits. Indeed, we predict this might be slightly better than market consensus seems to imply. Interestingly, it has recently – see, for example its 3Q IMS - been keen to emphasise its steps to manage costs, albeit maintaining selective investment.

- **Plus Gartmore synergies to help EPS** — Synergies from the Gartmore acquisition should offer additional ability to manage costs more than its peers.

- **Gartmore debt to be quickly repaid**— Henderson raised debt to help fund the Gartmore purchase, but intends to reduce debt levels to UK£150m by May 2012. It had unrestricted cash and cash equivalents of UK£166.5m at 30 Sep 2011.

- **Some factors may assist flows** — Henderson's flows in 3Q11 were disappointing. However, there were some small areas for optimism, namely hedge, UK retail and US retail, where flows were either positive or only slightly negative. Nonetheless, with the continued difficult market backdrop, we would not be surprised to see flows take another turn for the worse in 4Q11 with the Jose Mourinho advertising campaign unlikely to be helping flows yet, and very subdued levels of institutional RFPs. We would also not be surprised to see significant further net outflows from European SICAVs.

- **Legal writ a short term headwind** — Recent news that a group of sophisticated, mainly pension fund, investors in its PFI Secondary Fund II have served a legal writ against Henderson creates a potential reputational overhang and risk of poor news flow short term.

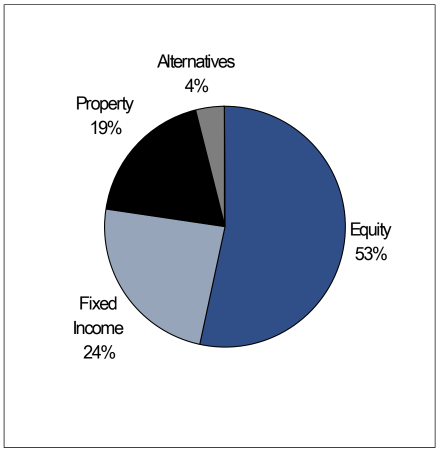
Henderson Group Plc (GBP)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Net Income (£M)	56.7	80.6	128.2	149.5	170.2
Diluted EPS (p)	7.0	9.5	12.5	13.5	15.3
Diluted EPS (Old) (p)	7.0	9.5	12.5	13.5	15.3
PE (x)	15.1	11.2	8.5	7.9	6.9
P/BV (x)	3.1	2.5	1.6	1.6	1.5
DPS (p)	6.1	6.5	7.0	8.0	9.0
Net Div Yield (%)	5.8	6.1	6.6	7.5	8.5
ROE (%)	4.8	24.5	4.9	12.9	15.4

Henderson Group

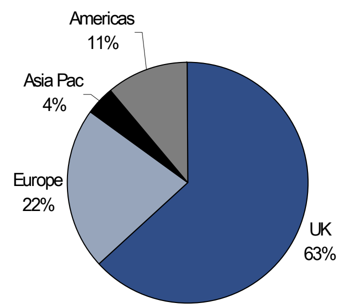
Key Charts and Financials

Figure 124. Henderson – AUM split by asset class



Source: Company Reports

Figure 125. Henderson – AUM split by investor location



Source: Company Reports

Financial Summary - Henderson (HGG) | Nigel Pittaway (612) 8225 4860

Year ended 31 December

Group income statement (UK£m)	FY09A	1H10A	2H10A	FY10A	1H11A	2H11E	FY11E	FY12E	FY13E
Management fees	226.8	137.4	145.1	282.5	176.0	194.3	370.3	401.9	442.6
Transaction fees	24.9	16.6	20.2	36.8	24.2	27.7	51.9	58.6	61.0
Performance fees	31.6	24.6	18.2	42.8	54.3	20.7	75.0	87.7	92.1
Total fee income	**283.3**	**178.6**	**183.5**	**362.1**	**254.5**	**242.7**	**497.2**	**548.3**	**595.7**
Finance income	4.3	0.9	-0.1	0.8	1.6	1.8	3.4	3.4	3.5
Total income	**287.6**	**179.5**	**183.4**	**362.9**	**256.1**	**244.5**	**500.6**	**551.7**	**599.2**
Staff (including performance fee bonuses)	-126.3	-79.9	-81.2	-161.1	-111.5	-100.6	-212.1	-232.2	-246.2
Investment administration	-22.6	-11.6	-11.7	-23.3	-14.1	-12.5	-26.6	-28.2	-29.1
Information technology	-11.5	-6.1	-6.6	-12.7	-6.3	-9.4	-15.7	-17.0	-17.4
Office expenses	-16.2	-8.3	-7.9	-16.2	-8.9	-11.0	-19.9	-22.0	-23.6
Depreciation	-3.2	-1.7	-1.5	-3.2	-1.5	-1.9	-3.4	-3.5	-3.7
Other expenses	-25.2	-19.0	-18.0	-37.0	-20.2	-24.2	-44.4	-49.8	-53.8
Operating costs	**-205.0**	**-126.6**	**-126.9**	**-253.5**	**-162.5**	**-159.6**	**-322.1**	**-352.7**	**-373.8**
Net interest expense	-8.9	-4.4	-4.3	-8.7	-7.2	-8.8	-16.0	-9.6	-9.9
Total expenses	**-213.9**	**-131.0**	**-131.2**	**-262.2**	**-169.7**	**-168.4**	**-338.1**	**-362.3**	**-383.7**
Underlying profit before tax	**73.7**	**48.5**	**52.2**	**100.7**	**86.4**	**76.1**	**162.5**	**189.4**	**215.5**
Tax on underlying profit	-16.3	-10.5	-10.1	-20.6	-18.1	-15.9	-34.0	-39.6	-45.0
Minority interests	-0.7	-0.7	1.2	0.5	0.0	-0.3	-0.3	-0.3	-0.3
Core earnings	**56.7**	**37.3**	**43.3**	**80.6**	**68.3**	**59.9**	**128.2**	**149.5**	**170.2**
Gartmore related employee share awards	0.0	0.0	0.0	0.0	-21.1	-12.1	-33.2	-11.8	-4.6
Amortisation of intangible management contracts (ia)	-8.7	-5.8	-5.8	-11.6	-15.8	-25.9	-41.7	-51.8	-51.8
Void property finance charge (vpfc)	-2.0	-1.1	-1.1	-2.1	-0.9	-1.1	-2.0	-2.1	-2.0
ia and vpfc before tax	**-10.7**	**-6.9**	**-6.9**	**-13.7**	**-37.8**	**-39.1**	**-76.9**	**-65.7**	**-58.4**
Tax on ia and vpfc	3.0	1.9	2.6	4.5	5.0	4.3	9.4	7.0	6.2
Tax on Gartmore related share awards					5.6	3.2	8.8	3.1	-1.2
ia and vpfc after tax	**-7.7**	**-5.0**	**-4.3**	**-9.2**	**-27.2**	**-31.6**	**-58.7**	**-55.6**	**-53.4**
Recurring profit after tax and minority interests	**49.0**	**32.3**	**39.0**	**71.4**	**41.1**	**28.3**	**69.5**	**93.9**	**116.8**
One off and discontinued items before tax									
Integration costs	-33.8				-51.7	-18.3	-70.0		
FSCS levy			-7.6	-7.6					
Goodwill impairment			-8.7	-8.7					
Towry Law International provision release			5.8	5.8					
Insurance recoveries	14.3								
Total one-off items before tax	**-47.5**	**0.0**	**-10.5**	**-10.5**	**-51.7**	**-18.3**	**-70.0**	**0.0**	**0.0**
Tax on one-off items	12.3	0.0	0.6	0.6	11.5	2.5	14.0	0.0	0.0
Non-recurring tax			16.4	16.4	12.9	0.0	12.9	0.0	0.0
Total one-off items after tax	**-35.2**	**0.0**	**6.5**	**6.5**	**-27.3**	**-15.8**	**-43.1**	**0.0**	**0.0**
Reported NPAT after minority interests	**13.8**	**32.3**	**45.5**	**77.9**	**13.8**	**12.5**	**26.4**	**93.9**	**116.8**
Add back: minority interests	0.7	0.7	-1.2	-0.5	0.0	0.3	0.3	0.3	0.3
Group profit after tax	**14.5**	**33.0**	**44.3**	**77.4**	**13.8**	**12.8**	**26.7**	**94.2**	**117.1**
Group recurring profit before ia, vpfc and tax	**73.7**	**48.5**	**52.2**	**100.7**	**86.4**	**76.1**	**162.5**	**189.4**	**215.5**
Less: ia and vpfc before tax	-10.7	-6.9	-6.9	-13.7	-37.8	-39.1	-76.9	-65.7	-58.4
Group recurring profit before tax	**63.0**	**41.6**	**45.3**	**87.0**	**48.6**	**37.0**	**85.6**	**123.7**	**157.2**

Net flows (UK£m) by type	FY09A	1H10A	2H10A	FY10A	1H11A	2H11E	FY11E	FY12E	FY13E
Investment management - retail					522	-1,120	-598	700	1,400
Investment management - institutional					-4,619	-1,850	-6,469	1,400	1,800
Investment management - total					**-4,097**	**-2,970**	**-7,067**	**2,100**	**3,200**
Property					215	215	430	800	1,000
Private equity					-34	-20	-54	20	200
Phoenix					-407	-1,057	-1,464	-1,100	-1,100
	-4,600	**-1,300**	**-100**	**-1,400**	**-4,323**	**-3,832**	**-8,155**	**1,820**	**3,300**
Growth (%)	*21.1%*	*-55.2%*	*-94.1%*	*-69.6%*	*nm*	*nm*	*nm*	*nm*	*81.3%*
FuM (UK£m) by type	**FY09A**	**1H10A**	**2H10A**	**FY10A**	**1H11A**	**2H11E**	**FY11E**	**FY12E**	**FY13E**
Investment management - retail					32,690	28,097	28,097	30,610	33,986
Investment management - institutional					20,368	17,990	17,990	20,551	23,677
Investment management - total					**53,058**	**46,087**	**46,087**	**51,161**	**57,663**
Property					12,373	12,688	12,688	13,996	15,555
Private equity					2,298	2,406	2,406	2,522	2,849
Phoenix					6,693	5,395	5,395	4,643	3,842
	58,100	**56,400**	**61,800**	**61,800**	**74,422**	**66,575**	**66,575**	**72,322**	**79,909**
Growth (%)	*17%*	*6%*	*6%*	*6%*	*32%*	*8%*	*8%*	*9%*	*10%*
FuM (%) by proportion	**FY09A**	**1H10A**	**2H10A**	**FY10A**	**1H11A**	**2H11E**	**FY11E**	**FY12E**	**FY13E**
Investment management - retail					43.9%	42.2%	42.2%	42.3%	42.5%
Investment management - institutional					27.4%	27.0%	27.0%	28.4%	29.6%
Investment management - total					**71.3%**	**69.2%**	**69.2%**	**70.7%**	**72.2%**
Property					16.6%	19.1%	19.1%	19.4%	19.5%
Private equity					3.1%	3.6%	3.6%	3.5%	3.6%
Phoenix					9.0%	8.1%	8.1%	6.4%	4.8%
					100.0%	**100.0%**	**100.0%**	**100.0%**	**100.0%**
FuM (UK£bn) by class	**FY09A**	**1H10A**	**2H10A**	**FY10A**	**1H11A**	**2H11E**	**FY11E**	**FY12E**	**FY13E**
Equities	26,900	28,900	31,518	31,518	43,626	35,512	35,512	38,577	42,624
Fixed income	21,000	17,000	18,540	18,540	15,992	15,901	15,901	17,273	19,085
Property	9,400	9,600	11,124	11,124	12,373	12,646	12,646	13,737	15,178
Private equity	800	900	618	618	2,431	2,517	2,517	2,735	3,021
	58,100	**56,400**	**61,800**	**61,800**	**74,422**	**66,575**	**66,575**	**72,322**	**79,909**
Key ratios	**FY09A**	**1H10A**	**2H10A**	**FY10A**	**1H11A**	**2H11E**	**FY11E**	**FY12E**	**FY13E**
Management fees to average FuM	0.42%	0.48%	0.49%	0.47%	0.52%	0.55%	0.58%	0.58%	0.58%
Transaction fees to average FuM	0.05%	0.06%	0.07%	0.06%	0.07%	0.08%	0.08%	0.08%	0.08%
Performance fees to average FuM	0.06%	0.09%	0.06%	0.07%	0.16%	0.06%	0.12%	0.13%	0.12%
Total revenue to average FuM	**0.53%**	**0.62%**	**0.62%**	**0.60%**	**0.75%**	**0.69%**	**0.77%**	**0.79%**	**0.78%**
Operating margin	27.6%	29.1%	30.8%	30.0%	36.1%	34.2%	35.2%	35.7%	37.3%
Compensation ratio	43.9%	44.5%	44.3%	44.4%	43.5%	41.1%	42.4%	42.1%	41.1%
Operating cost to m'mnt fee income ratio	90.4%	92.1%	87.5%	89.7%	92.3%	82.1%	87.0%	87.8%	84.4%
Operating cost to fee income ratio	72.4%	70.9%	69.2%	70.0%	63.9%	65.8%	64.8%	64.3%	62.7%
Total cost to total income ratio	74.4%	73.0%	71.5%	72.3%	66.3%	68.9%	67.5%	65.7%	64.0%
Performance summary	**FY09A**	**1H10A**	**2H10A**	**FY10A**	**1H11A**	**2H11E**	**FY11E**	**FY12E**	**FY13E**
Based on core earnings after tax									
Basic EPS (UKp)	7.5	4.7	5.5	10.2	7.6	5.8	13.4	14.6	16.6
PER (x)	15.2	12.0	10.3	11.1	7.4	9.7	8.4	7.7	6.8
Fully diluted EPS (UKp)	**7.0**	**4.5**	**5.2**	**9.5**	**7.1**	**5.4**	**12.5**	**13.5**	**15.3**
Growth (%)	-30%	67%	22%	35%	57%	4%	32%	8%	13%
PER (x)	16.2	12.5	10.8	11.9	8.0	10.4	9.1	8.4	7.4
Performance measures									
Return on average assets	6.8%	8.2%	9.0%	8.6%	10.2%	7.3%	9.8%	9.2%	10.4%
Core return on average equity	19.8%	26.0%	28.6%	25.4%	25.3%	16.6%	23.9%	20.5%	22.5%

Note: Profit before tax and tax differ to that displayed in the financial summary at the front of this note due to one-offs being excluded in these figures.

Source: Company reports and Citi Investment Research and Analysis *ia,vpfc = intangible amortisation, void property finance charge

Financial Summary - Henderson (HGI) : continued

Stock information									
Recommendation				Buy					
Market cap. UK listing (UK£m)				935					
Market cap. UK listing (A$m)		UK£:AUD	0.6483	1,442					
Market cap. UK listing (US$m)		USD:AUD	1.0372	1,496					
Current price (UKp per share)				113.2					
Current price (A$ per share)				1.80					
Average daily volume (m Australian listed CDIs))				2.82					
Note: some of the ratios may differ to those at the front of this note due to the use of slightly different FX rates.									
12 month roll forward valuation (UKp per share)				155					
Gearing	**FY09A**	**1H10A**	**2H10A**	**FY10A**	**1H11A**	**2H11E**	**FY11E**	**FY12E**	**FY13E**
Gross debt/equity	64.7%	61.5%	50.5%	50.5%	40.2%	40.7%	40.7%	20.3%	19.4%
Debt/(Market cap + debt)	16.3%	16.2%	16.1%	16.1%	23.8%	23.8%	23.8%	13.8%	13.8%
Interest cover (x)	9.3	12.0	13.1	12.6	13.0	9.7	11.2	20.8	22.7
Balance sheet (UK£m)	**FY09A**	**1H10A**	**2H10A**	**FY10A**	**1H11A**	**2H11E**	**FY11E**	**FY12E**	**FY13E**
Intangible assets - goodwill	285.7	285.7	277.0	277.0	566.3	566.3	566.3	566.3	566.3
Other intangibles	80.5	74.7	68.0	68.0	273.1	267.3	267.3	255.7	244.1
Investments using equity method	6.4	5.7	6.8	6.8	8.3	6.8	6.8	6.8	6.8
Property, plant and equipment	23.0	22.2	21.2	21.2	20.7	19.1	19.1	17.2	15.5
Deferred tax assets	15.4	14.4	30.3	30.3	52.1	31.2	31.2	32.1	33.1
Retirement benefit assets	90.0	113.8	112.5	112.5	135.9	112.5	112.5	112.5	112.5
Available-for-sale fin assets	41.7	44.1	46.6	46.6	63.2	44.3	44.3	42.1	40.0
Financial assets at fair value	0.9	1.2	1.2	1.2	2.0	1.2	1.2	1.3	1.3
Def acq and commission costs	77.0	100.0	113.6	113.6	141.0	119.3	119.3	125.2	131.5
Trade and other receivables	146.8	161.9	141.6	141.6	245.0	248.7	248.7	256.2	263.9
Cash and cash equivalents	119.0	100.5	176.6	176.6	170.7	205.1	205.1	218.9	237.1
Assets held for sale	0.0	0.0	0.0	0.0	2.1	0.0	0.0	0.0	0.0
Total assets	**886.4**	**924.2**	**995.4**	**995.4**	**1,680.4**	**1,621.8**	**1,621.8**	**1,634.3**	**1,652.1**
Borrowings	181.9	180.5	179.1	179.1	292.5	292.5	292.5	150.0	150.0
Retirement benefit obligations	6.1	6.3	6.2	6.2	6.6	6.2	6.2	6.2	6.2
Obligations under finance leases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current and deferred tax liabilities	74.1	88.3	65.8	65.8	119.3	126.3	126.3	127.6	129.1
Provisions	54.5	52.1	52.7	52.7	48.1	0.0	0.0	0.0	0.0
Share-based payment liability	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred income	76.1	99.8	114.7	114.7	143.5	118.1	118.1	121.7	125.3
Trade and other payables	211.5	201.8	222.0	222.0	343.0	358.7	358.7	488.0	468.8
Liabilities: groups held for sale	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total liabilities	**604.2**	**628.8**	**640.5**	**640.5**	**953.0**	**901.8**	**901.8**	**893.5**	**879.4**
Net assets	**282.2**	**295.4**	**354.9**	**354.9**	**727.4**	**720.0**	**720.0**	**740.8**	**772.6**
Share capital	103.1	103.3	104.2	104.2	136.5	136.5	136.5	136.5	136.5
Share premium reserve	250.7	252.3	250.7	261.0	672.6	672.6	672.6	672.6	672.6
Other reserves	-43.4	-32.7	-43.8	-41.2	-113.7	-113.7	-113.7	-113.7	-113.7
Profit and loss account reserve	-29.2	-29.2	1.4	30.4	31.5	24.1	24.1	44.9	76.7
Total shareholders' equity	**281.2**	**293.7**	**312.5**	**354.4**	**726.9**	**719.5**	**719.5**	**740.3**	**772.1**
Minority interests	1.0	1.7	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Total equity	**282.2**	**295.4**	**313.0**	**354.9**	**727.4**	**720.0**	**720.0**	**740.8**	**772.6**
NTA (excluding minorities)	**-85.0**	**-66.7**	**-32.5**	**9.4**	**-112.5**	**-114.1**	**-114.1**	**-81.7**	**-38.3**

Shareholder information		**Other**	
Major shareholders 11 August 2011		DRP (discount):	No
Perpetual Limited	11.8%	**Australian index weightings**	
Lansdowne Partners	6.2%	All Ordinaries	0.08%
Westpac Banking Corporation	6.2%	S&P/ASX 200	0.10%
Blackrock	5.0%	Diversified Financials	4.62%

Source: Company reports and Citi Investment Research and Analysis

Price to book / NTA	**FY09A**	**1H10A**	**2H10A**	**FY10A**	**1H11A**	**2H11E**	**FY11E**	**FY12E**	**FY13E**
Price to book (x)	3.3	3.2	2.7	2.7	1.7	1.7	1.7	1.7	1.6
Price to NTA (x)	(11.0)	(14.0)	100.4	100.4	(11.0)	(10.9)	(10.9)	(15.2)	(32.4)
Price to diluted NTA (x)	(11.0)	(14.0)	100.4	100.4	(11.0)	(10.9)	(10.9)	(15.2)	(32.4)
Dividend data	**FY09A**	**1H10A**	**2H10A**	**FY10A**	**1H11A**	**2H11E**	**FY11E**	**FY12E**	**FY13E**
DPS (UKp) - ordinary	6.10	1.85	4.65	6.50	1.95	5.05	7.00	8.00	9.00
DPS growth (%)	*0%*	*0%*	*9%*	*7%*	*5%*	*9%*	*8%*	*14%*	*13%*
Yield (%)	5.4%	3.3%	8.2%	5.7%	3.4%	8.9%	6.2%	7.1%	8.0%
NAV (excl minorities) per share	0.34	0.36	0.43	0.43	0.67	0.66	0.66	0.68	0.70
NTA (excl minorities) per share	(0.10)	(0.08)	0.01	0.01	(0.10)	(0.10)	(0.10)	(0.07)	(0.03)
Diluted NTA per share	(0.10)	(0.08)	0.01	0.01	(0.10)	(0.10)	(0.10)	(0.07)	(0.03)
Capital structure	**FY09A**	**1H10A**	**2H10A**	**FY10A**	**1H11A**	**2H11E**	**FY11E**	**FY12E**	**FY13E**
No. shares on issue (m)									
B/f no. of shares - fully paid	725.2	824.7	825.8	824.7	833.8	1,092.0	833.8	1,095.9	1,095.9
- capital raising/issue on acquisition	98.1				242.6	0.0	242.6		
- issues under Sharesave Scheme	0.8	0.0	0.2	0.2	12.7	3.9	16.6		
- issues under Share Incentive Plan	0.5	1.1	7.8	8.9	2.9	0.0	2.9	0.0	0.0
- capital reduction									
- share consolidation									
C/f no. of shares	**824.7**	**825.8**	**833.8**	**833.8**	**1,092.0**	**1,095.9**	**1,095.9**	**1,095.9**	**1,095.9**
Dilution for partly paid shares/options	1.1	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Diluted shares on issue	**825.8**	**826.2**	**833.9**	**833.9**	**1,092.1**	**1,096.0**	**1,096.0**	**1,096.0**	**1,096.0**
Weighted ave. basic	759.3	788.1	791.6	788.4	893.1	1,025.3	956.4	1,023.1	1,023.1
Weighted ave. diluted	809.4	827.0	829.8	849.2	964.2	1,101.2	1,025.5	1,109.2	1,115.2
CDIs in Australia	414.8	566.0	554.2	554.2	622.0	654.8	654.8		
% of issued shares	50.3%	68.5%	66.5%	66.5%	57.0%	59.7%	59.7%		
Cash flow analysis (UK£m)	**FY09A**	**1H10A**	**2H10A**	**FY10A**	**1H11A**	**2H11E**	**FY11E**	**FY12E**	**FY13E**
Cash inflow from operating activities									
Operating profit/(loss)	15.5	41.6	34.9	76.5	(3.1)	18.7	15.6	123.7	157.2
Depreciation	3.2	1.7	2.4	4.1	1.9	1.5	3.4	3.5	3.7
Impairment of goodwill	0.0	0.0	8.7	8.7	0.0	0.0	0.0	0.0	0.0
Amortisation of other assets	24.6	13.7	15.9	29.6	29.0	4.8	18.0	18.0	18.0
Def comm payable amort	(1.7)	0.2	(0.1)	0.1	(2.7)	2.7	0.0	0.0	0.0
Pension scheme	(5.6)	(4.5)	(3.0)	(7.5)	(2.9)	2.9	0.0	0.0	0.0
Net profit from disposals of property, plant	4.0	1.1	0.9	2.0	0.9	0.7	1.4	1.3	1.2
Gartmore related employee share awards					21.1	12.1	33.2	11.8	4.6
Fair value losses on financial assets	7.5	0.0	1.8	1.8	0.0	3.4	3.4	3.4	3.5
(Gains) from interest in associates	(1.4)	(1.2)	(0.8)	(2.0)	(1.8)	(0.2)	(2.0)	(2.0)	(2.0)
Finance costs and minority movement	8.8	4.2	4.3	8.5	6.8	8.8	16.0	9.6	9.9
Changes in operating assets	(27.7)	(28.5)	45.0	16.5	(45.1)	30.1	(15.0)	(15.0)	(15.0)
Tax paid	(1.0)	3.1	(1.3)	1.8	(6.5)	4.7	(1.8)	(29.5)	(40.1)
Net cashflows from op activities	**26.2**	**31.4**	**102.8**	**134.2**	**0.4**	**71.7**	**72.1**	**124.7**	**141.0**
Cashflows from investing activities									
Proceeds from sale or maturity	35.1	7.7	2.0	9.7	3.6	3.6	7.2	7.2	7.2
Purchases	(15.3)	(5.5)	(6.2)	(11.7)	(4.7)	(5.6)	(10.3)	(10.3)	(10.4)
Acquisition of subsidiaries and associates	(54.9)	0.0	(0.2)	(0.2)	201.2	(339.2)	(138.0)	0.0	0.0
Disposal of subsidiaries	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net cashflows from inv activities	**(35.1)**	**2.2**	**(4.4)**	**(2.2)**	**200.1**	**(341.2)**	**(141.1)**	**(3.1)**	**(3.2)**
Total cashflows from financing	(22.3)	(50.8)	(22.9)	(73.7)	(207.3)	191.4	(15.9)	(107.9)	(119.6)
Effects of exchange rate changes	(1.9)	(1.3)	0.6	(0.7)	0.9	(0.9)	0.0	0.0	0.0
Net change in cash	**(33.1)**	**(18.5)**	**76.1**	**57.6**	**(5.9)**	**(79.0)**	**(84.9)**	**13.8**	**18.2**

Henderson Group Plc

Company description

Henderson has been managing investments since 1934, and managing pension funds since 1975. It has investment management operations in the UK, Europe, North America and Asia.

Investment strategy

We rate the shares of Henderson Buy (1). Henderson is a top-10 UK fund manager, with operations globally. The acquisition of Gartmore assists the group strategically by allowing further efficiency gains and increasing its exposure to high-margin funds. It also increases the exposure of the group to equities, increasing Henderson's market leverage during volatile equity markets.

Valuation

We currently value Henderson using a DCF for the business excluding performance fees, placing performance fees on 5x FY12E. In our DCF we assume termination of Phoenix's contact with Henderson in 2015.

We estimate that Henderson's WACC is 10.9%. This is based on a cost of equity of 12.3%, derived from a risk-free rate of 2.5% (the current 10-year gilt yield), a beta of 1.40 and an equity risk premium of 7.0%.

We have modeled the group's earnings (less performance fees) out to 2020, and then have used a long-run growth rate of 4%. We have then added back a value for performance fees, based on a P/E of 5x, before deducting the group's projected net debt in 12 months.

This gives an equity valuation for Henderson of UK£1,702m, or 155p per share, which converts to A$2.40.

Risks

We highlight the risk to Henderson’s total AuM from adverse market movements and weak investment performance.

Upside risks to our target price include:

- Increases in the level of equity or bond markets or improvement in the group's fees;
- Exceeding targeted operating margin enhancements;
- Retail AuM becoming a larger proportion of total AuM.

Downside risks include:

- Damage to its reputation;
- Adverse impacts from legal action against its funds;
- Failure to achieve targeted operating margin enhancements including the integration of Gartmore;
- Any deterioration in the group's transaction or performance fees; and
- Inability to stem institutional outflows or greater than expected outflows from Gartmore.

Company Focus

ICAP PLC (IAP.L)

The Time to Buy

- Company Update
- Target Price Change
- Estimate Change

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Buy	**1**
Price (14 Dec 11)	£3.32
Target price	£4.50
from £5.60	
Expected share price return	35.6%
Expected dividend yield	6.1%
Expected total return	**41.7%**
Market Cap	£2,144M
	US$3,318M

Price Performance
(RIC: IAP.L, BB: IAP LN)

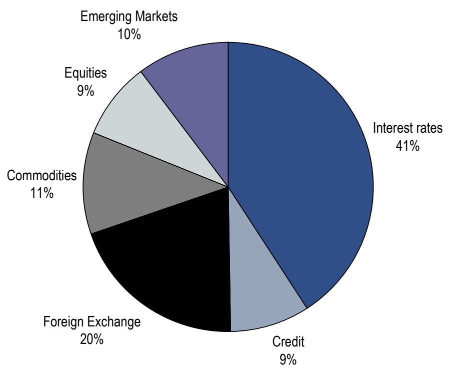
- **Reiterate Buy** — We expect ICAP to emerge as one of the ultimate winners of the structural changes in OTC trading landscape, and believe the current valuation at 8x 2012E PE offers an excellent opportunity for investors who prefer to look through the near term cyclical challenges and regulatory delays and focus on the long term structural earnings growth potential of ICAP.
- **Impact of the Secular Changes in the FICC Trading on ICAP – Medium to Long term positive** — The regulation-led structural shift that FICC has been experiencing in favor of less capital intensive "flow" trading is a structural positive trend for ICAP, in our view. Over 75% of ICAP's revenues are derived from flow products. Furthermore, increased electronic trading of these flow products put ICAP in a superior position due to its ownership of the two leading electronic broking platforms (BrokerTec and EBS) and its partnership with the top swap dealers in its iSwap initiative. Last but not least, we expect the final definition of "major swap participant" to expand ICAP's customer base to include non-bank financial institutions along with the major dealers. We believe these three structural trends will result in an increase in ICAP's medium and long term revenues and earnings. However, in the near term, it is sensible to assume some pressure on the OTC volumes (and ICAP's revenues) as the industry transitions to a more flow oriented trading structure and until the regulatory uncertainties diminish.
- **Revised revenue and cost estimates; Earnings estimates maintained** — We have lowered our revenue and cost growth forecasts which results in no material impact to our PBT and EPS forecasts for ICAP. We now forecast 1% decline in total revenues both for FY 12 and FY 13. The revenue declines are offset by our assumptions of 1% and 2% decline in ICAP's underlying costs.
- **Costs - structural review?** — In 2012, we expect ICAP to undertake a structural review of its operating costs, including comp costs, purchasing, IT costs, etc., which could result in a low single digit % reduction in ICAP's cost base over time without hurting its revenues. While we do not expect a material change in ICAP's headcount in 2012, we think some adjustments to the comp structure could result in some savings over time.
- **New Target Price at 450p** — The primary driver of the decline in our target price is the increased cost of equity assumption, which we have applied consistently to all the exchanges and interdealer broker stocks in our coverage universe.

ICAP PLC (GBP)

Year to 31 Mar	2010A	2011A	2012E	2013E	2014E
Net Income (£M)	210.0	260.0	248.4	266.1	287.0
Diluted EPS (p)	32.1	39.3	37.5	40.2	43.4
Diluted EPS (Old) (p)	32.1	39.3	37.5	40.5	44.4
PE (x)	10.3	8.5	8.9	8.3	7.6
P/BV (x)	1.8	1.8	1.8	1.7	1.6
DPS (p)	17.6	20.0	19.1	20.5	22.1
Net Div Yield (%)	5.3	6.0	5.8	6.2	6.7
ROE (%)	10.2	15.1	14.5	15.6	16.2

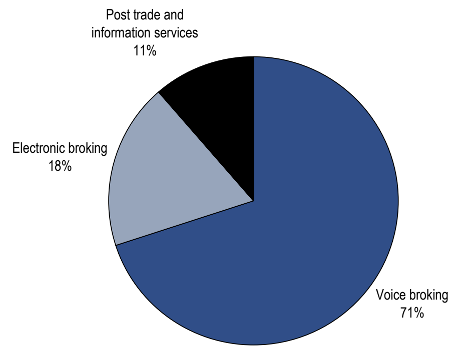
ICAP – Key Charts

Figure 126. Revenue Breakdown by Product – 1H 11/12



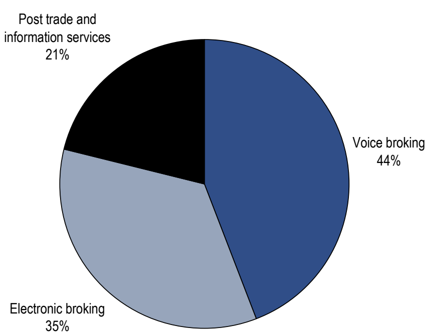
Source: Company data, CIRA

Figure 127. Revenue Breakdown by Business – 1H 11/12



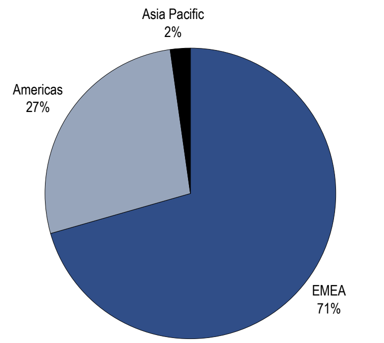
Source: Citi Investment Research and Analysis

Figure 128. Operating Profit Breakdown by Business – 1H 11/12



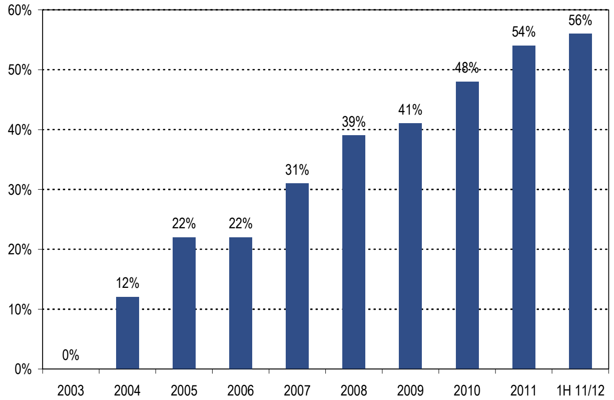
Source: Company data, CIRA

Figure 129. Core Voice Broking Opt Profit Breakdown by Region – 1h 11/12



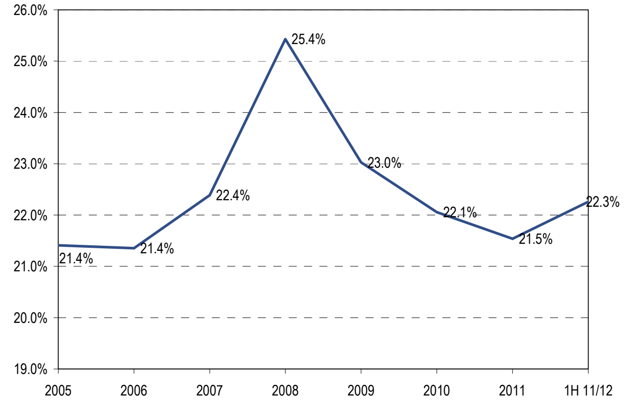
Source: Company data, CIRA

Figure 130. Operating Profit Evolution by Business



Source: Company data, CIRA

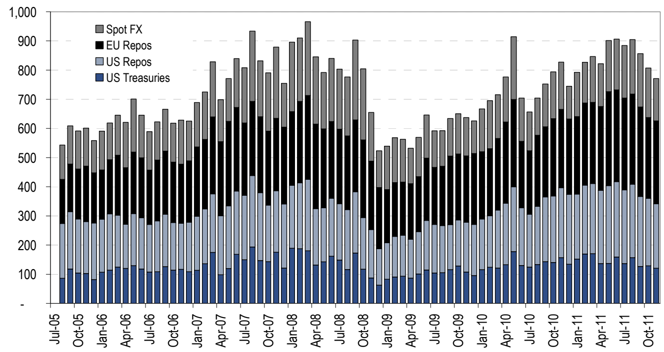
Figure 131. Operating Margin Evolution



Source: Company data, CIRA

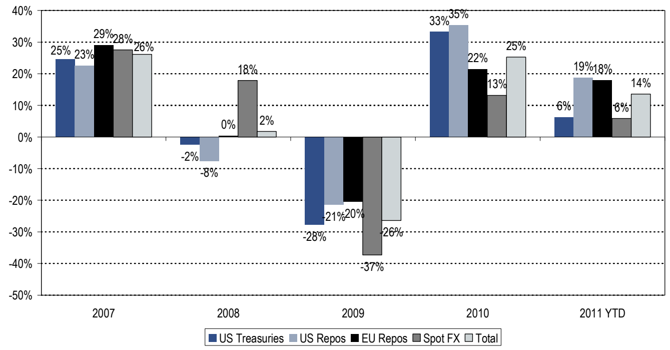
ICAP – Key Charts (Continued)

Figure 132. ICAP Electronic Broking Volumes



Source: Company data, CIRA

Figure 133. ICAP Electronic Broking Volumes – YoY Growth



Source: Company data, CIRA

Figure 134. ICAP Electronic Broking Volumes in 2011

ADV US$bn	Apr-11	growth yoy	May-11	growth yoy	Jun-11	growth yoy	Jul-11	growth yoy	Aug-11	growth yoy	Sep-11	growth yoy	Oct-11	growth yoy	Nov-11	growth yoy	FY 11 YTD
US Treasuries	136.7	3%	137.2	-23%	159.0	22%	136.6	3%	157.0	18%	126.4	-12%	128.7	-9%	120.8	-23%	-3%
US Repos	250.7	19%	266.7	20%	258.9	31%	252.7	27%	251.9	26%	240.2	8%	231.3	2%	220.5	-8%	16%
EU Repos	287.4	3%	322.4	7%	314.5	38%	314.6	29%	308.6	26%	306.9	28%	277.4	5%	284.8	6%	18%
Spot FX	147.4	-4%	175.2	-18%	174.1	17%	180.5	41%	186.9	46%	183.1	25%	170.0	6%	144.6	-11%	9%
Total	822.2	6%	901.5	-1%	906.5	29%	884.4	26%	904.4	28%	856.6	14%	807.4	2%	770.7	-7%	12%

Source: Company data, CIRA

ICAP – Key Financials

Figure 135. ICAP – Summary P&L

	2011	H1 2012A	H2 2012E	2012E	2013E	2014E	Growth 2011	H1 2012A	H2 2012E	2012E	2013E	2014E
Interest rates	695	353	335	688	674	708	10%	2%	-4%	-1%	-2%	5%
Credit	185	77	86	163	147	139	-9%	-21%	-2%	-12%	-10%	-5%
Foreign Exchange	321	175	156	331	341	368	10%	9%	-3%	3%	3%	8%
Energy	213	98	115	213	213	224	22%	-1%	1%	0%	0%	5%
Equities	136	75	68	143	143	149	-17%	6%	4%	5%	0%	4%
Emerging Market	191	89	102	191	197	207	35%	-3%	3%	0%	3%	5%
Gross Turnover	**1,741**	**867**	**861**	**1,728**	**1,714**	**1,794**	**8%**	**0%**	**-1%**	**-1%**	**-1%**	**5%**
Operating Costs - underlying	**-1,387**	**-687**	**-685**	**-1,372**	**-1,339**	**-1,390**	**9%**	**1%**	**-3%**	**-1%**	**-2%**	**4%**
Impairment of intangibles	-88	-35	-35	-70	-70	-70						
Exceptionals	-3	0	0	0	0	0						
Total operating costs	**-1,478**	**-722**	**-720**	**-1,442**	**-1,409**	**-1,460**	**9%**	**0%**	**0%**	**-2%**	**-2%**	**4%**
Other income	21	13	12	25	26	28						
Operating Profit	**284**	**158**	**153**	**311**	**331**	**361**	**6%**	**0%**	**0%**	**10%**	**6%**	**9%**
Operating profit underlying	**375**	**193**	**188**	**381**	**401**	**431**	**6%**	**-2%**	**6%**	**2%**	**5%**	**7%**
Share of operating profit of joint ventures and associates	-3	3	3	6	6	6						
Net financial income	-28	-10	-17	-27	-27	-27						
PBT	**233**	**151**	**139**	**290**	**310**	**340**	**-6%**	**0%**	**0%**	**24%**	**7%**	**10%**
PBT pre exceptionals and impairment	**350**	**186**	**174**	**360**	**380**	**410**	**4%**	**2%**	**4%**	**3%**	**6%**	**8%**
Tax	-50	-50	-54	-112	-114	-123						
PAT pre exceptionals and impairment	260	128	120	248	266	287						
Minority interests	0	0	0	0	0	0						
Adjusted Net Income	**260**	**128**	**120**	**248**	**266**	**287**	**24%**	**-5%**	**-4%**	**-4%**	**7%**	**8%**
Net Income	**183**	**101**	**85**	**178**	**196**	**217**	**55%**	**0%**	**0%**	**-2%**	**10%**	**11%**
Adjusted diluted EPS	**39.3**	**19.3**	**18.1**	**37.5**	**40.2**	**43.4**	**22%**	**-6%**	**-3%**	**-5%**	**7%**	**8%**

Source: Company data, Citi Investment Research and Analysis

Figure 136. ICAP – Discounted Cash Flow Valuation

	31/03/2012	31/03/2013	31/03/2014	31/03/2015	31/03/2016	31/03/2017	31/03/2018	31/03/2019
EBITA	387.1	407.1	436.9	458.8	477.1	496.2	511.1	521.3
growth	2%	5%	7%	5%	4%	4%	3%	2%
Notional Tax	-120.0	-122.1	-131.1	-137.6	-143.1	-148.9	-153.3	-156.4
NOPAT	267.1	285.0	305.9	321.2	334.0	347.4	357.8	364.9
Depreciation	44.0	52.6	53.9	59.3	65.3	71.8	79.0	86.9
Capex	-29.6	-30.8	-32.1	-59.3	-65.3	-71.8	-79.0	-86.9
FCFF	281.4	306.7	327.7	321.2	334.0	348.4	359.8	364.9
Discounted FCFF	271.7	262.9	249.5	217.1	200.5	185.7	170.3	153.4
PV of near term cash flows	1558							
Terminal value	1630							
Total Value of Firm	3187							
Net Debt/(cash)	213							
Equity Value	2974							
No. of Shares	664.0							
Valuation	448							
Target Price (p)	**450**							

Source: Citi Investment Research and Analysis

ICAP PLC

Company description

ICAP is one of the world's largest inter-dealer brokers (IDB), operating on a global basis. The group's core business is to act as an intermediary to commercial and investment banks in the wholesale financial markets, helping to provide liquidity, anonymity and price discovery. This is done through both traditional voice broking and an electronic platform. In recent years, it has also diversified into post-trade services, which it sees as a significant growth area.

ICAP's product range is very wide, including fixed income securities, money market products, interest rate derivatives, FX, energy, credit and equity derivatives and post-trade services.

Investment strategy

We rate ICAP Buy.

ICAP offers investors the attractions of good bias to products with a robust volume outlook in 2012 as well as expansion of electronic offering and push into post-trade services.

The volume outlook is healthier in products such as FX, interest rate, commodities and emerging markets.

The shift to electronic trading and post-trade services, where margins are higher, should help offset voice broking declines.

ICAP trades at a premium to other listed IDBs. We believe a P/E premium to IDB peers is warranted given the depth of ICAP's product offering and its leadership position in electronic products.

Valuation

Our primary valuation methodology for ICAP is discounted cash flow analysis, supported by relative P/E comparisons.

Our input assumptions are a WACC of 12.6%, derived from a cost of equity of ~13% and cost of debt of 6%, and long-term growth rate of 2%.

The present value of forecast future cash flows to the firm total £3.2bn, from which we deduct the group's net debt and divide by the diluted number of shares estimated at year-end. This produces a target price of 450p.

Risks

We highlight the following risks to achievement of our target price:

1. Volume outlook - Weaker (better) than expected volumes constitute a downside (upside) risk to our numbers.

2. Competition - Interdealer brokerage industry is notoriously competitive. Any significant increase in the competition of electronic trading constitutes a risk to our investment thesis.

3. Deleverage reducing OTC trading activity - IDB revenues are driven by trading activity in OTC markets. Reduced trading by delevered hedge funds / capital-constrained banks could cause a hit to ICAP revenues.

4. Pricing pressures - ICAP's customer base is trying to restore profitability. One means of increasing profits is to pay away less commission to intermediaries such as the IDB industry. This may put additional pressure on product pricing.

Company Focus

IG Group (IGG.L)

Leveraging the Platform

- Company Update

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Buy	**1**
Price (14 Dec 11)	£4.65
Target price	£5.30
Expected share price return	13.9%
Expected dividend yield	4.8%
Expected total return	**18.7%**
Market Cap	£1,690M
	US$2,617M

Price Performance
(RIC: IGG.L, BB: IGG LN)

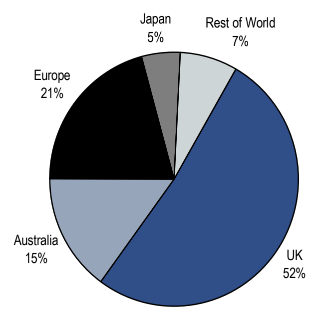
- **Well positioned for FY12:** Despite a strong H112, which has seen us upgrade IG's numbers twice, and a likely moderation in the pace of growth in H212 (Citi +6% YoY and +7% YoY in FY13), we believe our new estimates are cautious given the expanding customer base and a weak Q311, meaning further upgrades are possible on a 6m view.
- **Differentiated Trading platform:** IG is the dominant player in both the UK and Australia with c.39% and 30% market shares, respectively. While competition is fierce on key indices/FX crosses, IG is able to differentiate itself vs. some peers by offering Direct Market Access (DMA) as well as CFDs on less liquid equities. Further, the scale of its platform means that more can be matched internally (can be up to c.85% on the more liquid markets) helping to reduce hedging costs.
- **Increased functionality and products on its platform:** Medium term, we believe IG may look to offer shares on its platform. This would be a logical extension of its offer and appeal to a broader range of customers, particularly given the introduction of the RDR is likely to bring a sharper focus on execution costs (something IG seems well positioned to compete on). Finally, the introduction of new trading tools/market colour is set to enhance the customer experience and drive revenue per customer.
- **Mobile trading a key driver:** IG has moved swiftly to offer arguably the most complete range of mobile solutions (from Android to i-pad) meaning we continue to believe mobile trading can reach c.25%-30% of revenues on a 12-18m view and so enhancing revenue per customer.
- **Further geographical expansion:** While we continue to believe its core markets (e.g. UK and Australia) are capable of upper single digit revenue growth, Europe remains an immature market opportunity and the short term revenue growth driver (Citi estimates look for 16% revenue CAGR 2012-14). Growth is likely to be driven by Germany (current market share c.15%) but also France and new markets (e.g. the Netherlands). We think the US remains a medium term option at best.
- **Valuation remains attractive:** Comparatives look set to get harder from Q4 but the larger and growing customer base, increased mobile trading, introduction of new platform functionality and continued European expansion should help to drive growth. Trading on 12x and 11x FY12E and FY13E EPS, respectively, with a FY12E yield of c.5%, we continue to see upside and remain Buyers.

IG Group (GBP)

Year to 31 May	2010A	2011A	2012E	2013E	2014E
Net Income (£M)	111.3	118.8	140.9	152.7	162.5
Diluted EPS (p)	30.8	32.6	38.5	41.7	44.4
Diluted EPS (Old) (p)	30.8	32.6	38.5	41.7	44.4
PE (x)	15.1	14.3	12.1	11.1	10.5
P/BV (x)	3.6	4.5	3.9	3.4	3.0
DPS (p)	18.5	20.4	22.4	24.3	26.0
Net Div Yield (%)	4.0	4.4	4.8	5.2	5.6
ROE (%)	23.4	-6.0	33.4	31.5	29.0

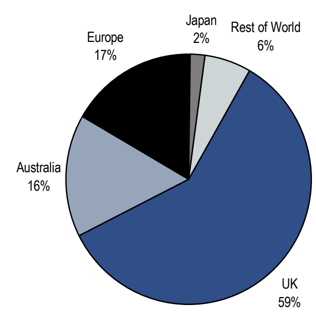
Key Charts

Figure 137. 2012E revenues by geography



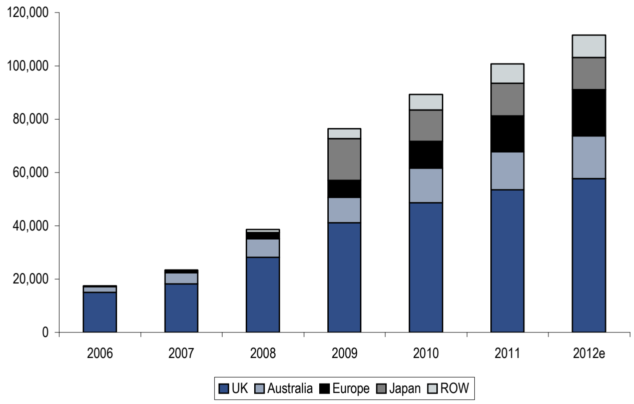
Source: CIRA estimates

Figure 138. 2012E EBITDA by geography



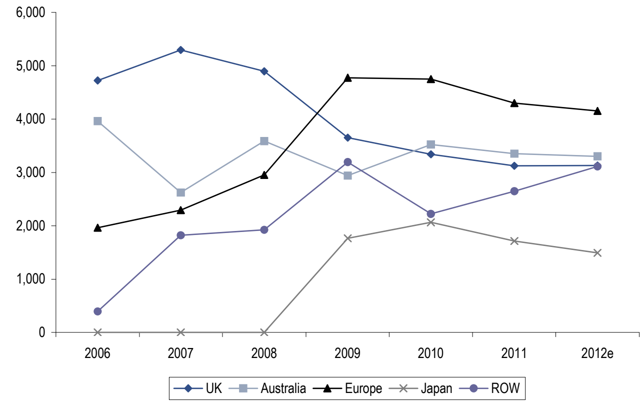
Source: CIRA estimates

Figure 139. No. of clients by geography



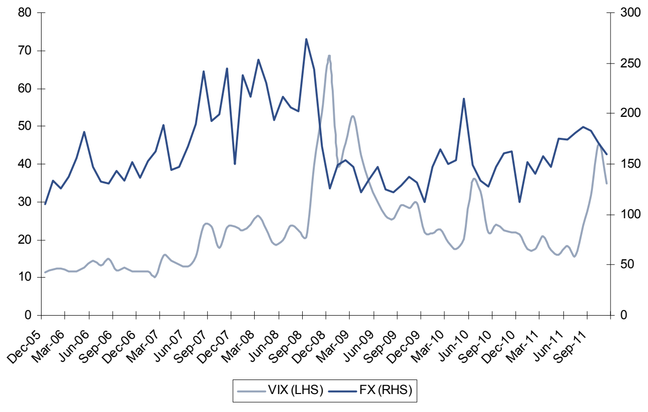
Source: Company reports and CIRA estimates

Figure 140. Revenue per active client by geography



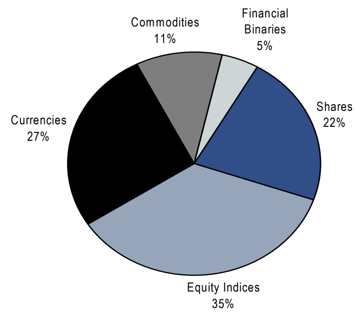
Source: Company reports and CIRA estimates

Figure 141. Volatility Index (Vix) and ICAP Av. Daily FX volumes ($bn)



Source: DataStream and ICAP

Figure 142. FY 2011 revenues by product type



Source: Source: Company reports

Financial Forecasts

Figure 143. IG Group Income Statement

Year ended May (£m)	**2010**	**2011**	**2012e**	**2013e**	**2014e**
Trading Revenue	299	320	365	389	415
Interest income on segregated client funds	6	9	10	10	9
Turnover	**304**	**330**	**374**	**399**	**424**
Interest on segregated accounts		(0)			
Betting duty	(5)	(4)	(5)	(5)	(5)
Cost of sales	(5)	(4)	(4)	(4)	(4)
Net Operating Income	**300**	**325**	**370**	**395**	**419**
Margin	**98%**	**99%**	**99%**	**99%**	**99%**
Total admin expenses ex-DA	(126)	(147)	(161)	(171)	(183)
Depreciation	(8)	(11)	(13)	(13)	(14)
Impairment of trade receivables	1	2	(2)	(3)	(3)
Share awards and impairments	(5)	(4)	(5)	(5)	(5)
EBITA	**162**	**166**	**190**	**203**	**213**
EBITA margin	**53%**	**50%**	**51%**	**51%**	**50%**
Exceptional items	(5)	(151)			
Amortisation of intangibles	(17)	(8)	(9)	(9)	(9)
Operating profit	140	7	182	194	205
Operating margin	46%	2%	49%	49%	48%
Net interest	0	(0)	3	3	3
Profit before Tax	**140**	**7**	**184**	**198**	**208**
PBT margin	**46%**	**2%**	**49%**	**50%**	**49%**
Tax	(39)	(32)	(48)	(50)	(54)
Profit for the year	101	(25)	136	148	154
Minorities	(0)	(0)	(0)	(0)	(0)
Profit attributable to equity holders of parent	**101**	**(25)**	**136**	**148**	**154**
Dividend	(58)	(68)	(79)	(83)	(90)
Retained Profit	**44**	**(93)**	**57**	**64**	**64**
EBITDA	170	176	203	217	228
PBT pre goodwill and exceptionals	158	163	193	207	217
Adj. PBT	53%	51%	53%	53%	52%
Retained profit pre-goodwill & exceptionals	111	119	141	153	163
Per share information					
Shares outstanding at year end	361.6	362.8	362.8	362.8	363.9
Av. Weighted number of basic shares	359.3	360.9	363.6	363.7	363.7
Av. Weighted number of diluted shares	361.7	364.1	365.9	365.9	365.9
Earnings per share					
EPS pre goodwill and exceptionals - basic	31.0	32.9	38.8	42.0	44.7
EPS pre goodwill and exceptionals - diluted	**30.8**	**32.6**	**38.5**	**41.7**	**44.4**
% Growth in EPS	**21%**	**6%**	**18%**	**8%**	**6%**
Dividend per share	36%				
DPS	18.5	20.4	22.4	24.3	26.0
Dividend growth	23%	10%	10%	8%	7%

Source: Company reports, Citi Investment Research and Analysis

IG Group

Company description

IG Group is the leading global provider of retail spread betting and CFDs globally. It derived 54% of its 2011 revenues from UK but increasingly is looking to expand internationally with Europe likely to be main short-term revenue driver.

Investment strategy

We have a Buy recommendation for IG Group. The company enjoys a market-leading position in the UK (54% of FY11 revenues) and Australia (15% of FY11 revenues) due to the strength of its technology and trading platform. Future growth is likely to be driven by Europe (18% of FY11 revenues) where it is seeing good growth in France, Germany, Italy and Iberia. It is also expanding into the US through its Nadex subsidiary but this is a longer-term opportunity at best.

Valuation

We value IG Group based on a DCF valuation, which derives a value of 530p using a WACC of 9%, which assumes a risk-free rate of 2.5%, an equity risk premium of 6.7%, and a beta of 1.0x.

Risks

Our assumptions for IG Group are based on industry and company factors.

Factors that could prevent the company reaching our target price include:

- Further spread cuts in its UK business.
- More regulatory intervention (e.g. more leverage limits or a European shorting ban).
- Changes to the UK tax regime (e.g. taxing of spread betting or further increases in the capital gains rate).
- A lower level in the adoption of CFD trading by its European customers.
- An increase in bad debts from its customers.

Company Focus

- Company Update
- Target Price Change
- Estimate Change

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Neutral	**2**
Price (14 Dec 11)	£2.26
Target price	£2.30
from £2.00	
Expected share price return	2.0%
Expected dividend yield	8.0%
Expected total return	**10.0%**
Market Cap	£901M
	US$1,395M

Price Performance
(RIC: ICP.L, BB: ICP LN)

Intermediate Capital Group (ICP.L)

Under Cyclical Pressure

- **Cautious outlook for private equity and debt markets** — We believe 2012 will be characterised by low level of investments and exits, minimal fundraising, low capital gains, and higher provisions and impairments, which will put pressure on NAVs of private equity and debt companies. Inevitably, ICG should be impacted by these unfavorable cyclical trends in the industry.

- **Reiterate Neutral** — ICG shares, which are down ~30% ytd and trading at 0.65x Dec 2012E NAV, appear to price in the gloomy outlook for private equity and debt markets and the associated negative headlines. In the long run, we expect ICG, as a non-bank debt capital provider, to benefit from the structural trends of deleveraging across European banks and the significant amount of refinancing requirements. Having said that, in the near term, the cyclical pressures will continue weigh on the stock price, in our view. Until we see signs of improvement in the capital market and economic growth conditions, we prefer to have a Neutral rating on ICG.

- **Funding position improving** — In Nov with its 1H 11/12 results announcement, ICG indicated that its current headroom on its debt facilities after adjusting for the agreed disposals is £615m, which we thought was reassuring. The next major maturity of debt of ~£320m due April 2012 will need to be refinanced at higher levels than the current rate. Management appears to be confident that the following big maturity, £650m due June 13, should be refinanced at similar terms given the company's strong relationships with the five banks involved in the facility. Since the results announcement, ICG also announced that it is issuing £50m 7% fixed rate retail bonds due Dec 2018. We think management is very aware of the need to improve and diversify the funding position of the company and is taking the necessary actions.

- **New estimates, new target price** — Following the better than expected 1H 11/12, our FY 12 cash core income estimate increases by 7%. However, our reduced capital gains and increased provisions assumptions lead to a 12% decline in our FY 13 cash core income expectations. The increase in our target price to 230p is driven by the increase in the 30 Sept 11 book value by ~£100m as a result of ICG's adoption of IFRS 9 standard and the lower discount we apply to ICG's equity investments (40% vs. 60% previously) in our sum of the parts valuation methodology.

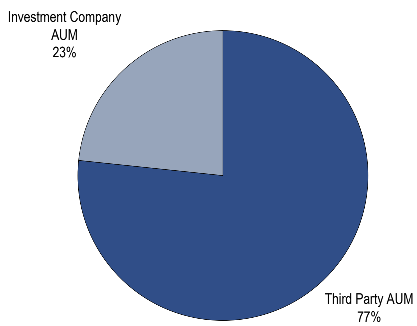
- **Next newsflow** — Q3 IMS late January 2012.

Intermediate Capital Group (GBP)

Year to 31 Mar	2010A	2011A	2012E	2013E	2014E
Net Income (£M)	81.7	128.1	131.5	120.5	154.5
Diluted EPS (p)	25.0	32.5	33.3	30.3	38.8
Diluted EPS (Old) (p)	25.0	32.5	26.3	33.9	37.9
PE (x)	9.0	7.0	6.8	7.5	5.8
P/BV (x)	0.7	0.7	0.6	0.7	0.6
DPS (p)	17.0	18.0	18.0	19.0	20.0
Net Div Yield (%)	7.5	8.0	8.0	8.4	8.8
ROE (%)	8.3	10.5	9.9	8.7	11.2

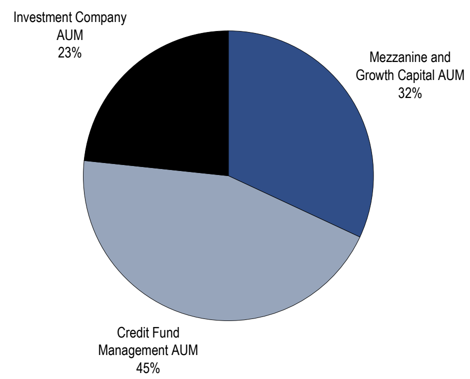
ICG – Key Charts

Figure 144. Breakdown of Assets Under Management - £10.3bn as of 30 Sept 11



Source: Company data, CIRA

Figure 145. Breakdown of Assets Under Management - £10.3bn as of 30 Sept 11



Source: Company data, CIRA

Figure 146. Top Twenty Assets (£m) – 51% of Inv Company AuM

Company	Country	Industry	Investment Year
Medi Partenaires	France	Healthcare	108.9
Elis V	France	Business services	93.4
Applus+	Spain	Business services	81.8
Biffa	UK	Waste management	78.2
CPA	UK	Business services	76.9
BAA	UK	Shipping & transport	75.7
Attendo	Sweden	Healthcare	75.3
Materis	France	Building Materials	67.4
Link Market Services	Australia	Financial Services	60.3
Intelsat	North America	Telephone networks	59.2
Minimax	Germany	Electronics	51.1
Eismann	Germany	Food retailing	49.4
Gerflor	France	Building Materials	49.2
Allflex	UK	Business services	47.9
Ethypharm	France	Pharmaceuticals	46.8
Eos	UK	Financial Services	46.5
SAG	Germany	Utilities	44
Feu Vert	France	Motors	41.9
Orizonia	Spain	Leisure & entertainment	41.7
Lovenplay	Germany	Leisure & entertainment	38
Top 20 Assets			**1,233.6**

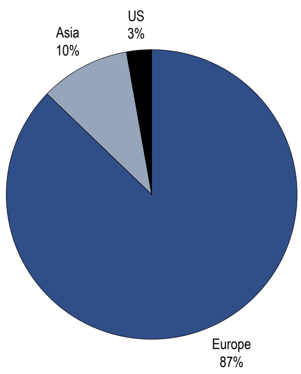
Source: Company data, CIRA

Figure 147. Top 10 Equity Assets (£m)

Company	Country	Industry	Investment Year
CPA	UK	Business Services	67.9
Intelsat	North America	Telephone networks	59.2
Allflex	France	Business Services	47.9
Eismann	Germany	Food retailing	33.5
Gerflor	France	Building Materials	31.9
Link Market Services	Australia	Financial services	23.4
TeamSystem	Italy	Business Services	21.3
Van Gansewinkel	Netherlands	Utilities	21.2
Applus+	Spain	Business Services	18.6
Bureau van Dijk	Belgium	Printing & Publishing	16.1
Top 10 Equity Assets			**341**

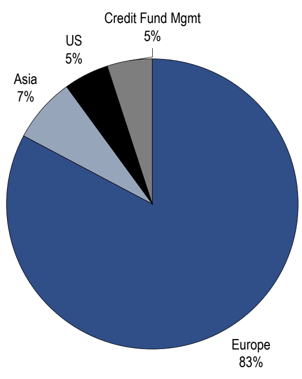
Source: Company data, CIRA

Figure 148. Breakdown of Revenues by Geography – 1H 11/12



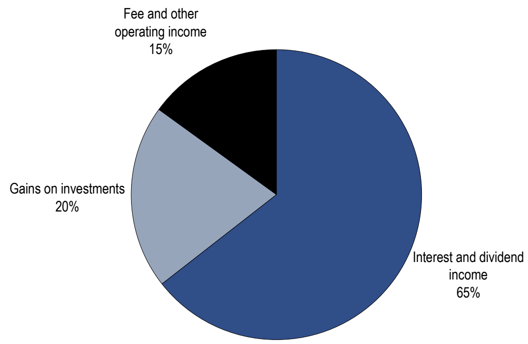
Source: Company data, CIRA

Figure 149. Loan Book by Sector – 30 Sept 11



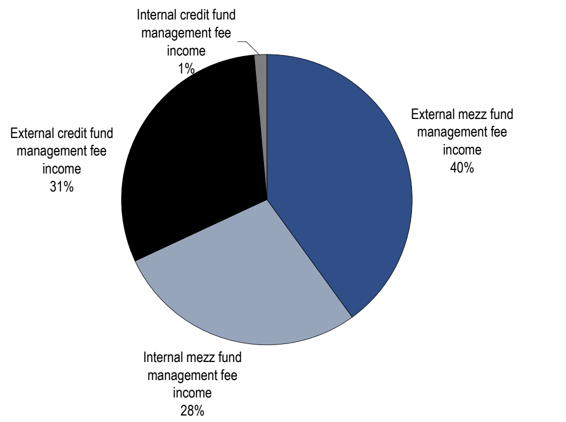
Source: Company data, CIRA

Figure 150. Breakdown of Total Income – 1H 11/12



Source: Company data, CIRA

Figure 151. Breakdown of Fund Management Fee Income – 1H 11/12



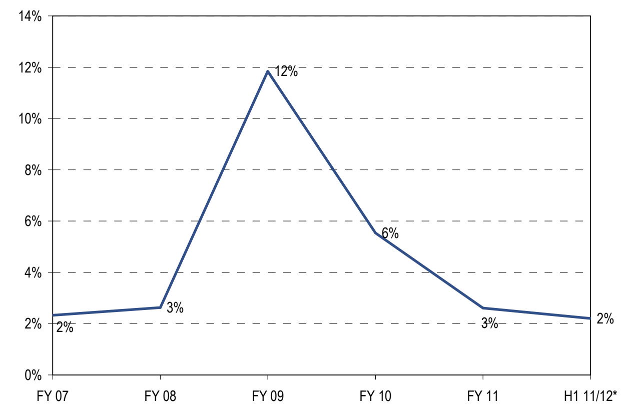
Source: Company data, CIRA

Figure 152. Mezzanine and Growth Capital Fund – Fee Structure

Fund	Size	Equity	End of Investment Period	% Invested	Main fee	Carry
Funds in investment period						
ICG V	TBC	TBC	Sep-16	-	1.5% on committed equity	
ICAP 08	$0.6bn	$0.6bn	Apr-13	35%	1.5% on committed equity	
RF08	EUR 1.16bn	EUR 0.64bn	Oct-12	77%	1.5% on invested	
Funds in realisation						
Fund	**Size**	**Equity**	**End of Investment Period**	**% Invested**	**Main fee**	**Carry**
EF06	EUR 1.75bn	EUR 1.25bn	Mar-11	92%	1.25% on invested	20% of 20 over 8
IMP08	EUR 0.13bn	EUR 0.13bn	Feb-10	84%	1.5% on invested	20% of 20 over 8
EF03	EUR 1.42bn	EUR 0.67bn	Sep-06	100%	1.5% on invested	28% of 20 over 8
ICAP 05	$ 0.3bn	$ 0.3bn	Apr-08	91%	2% on invested	25% of 20 over 8

Source: Company data, CIRA

Figure 153. Trend in Provisions as % of Opening Portfolio



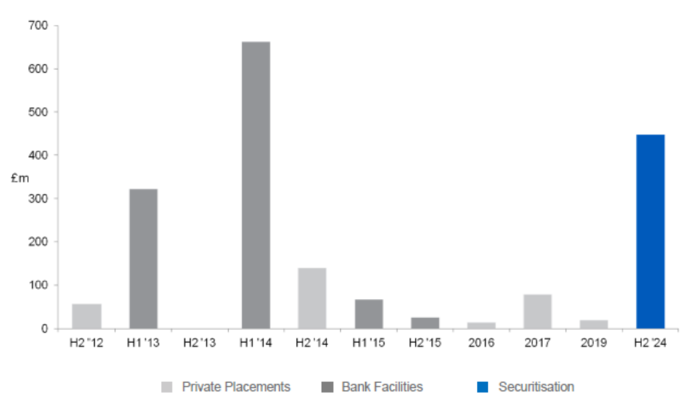
*Annualised
Source: Company data, CIRA

Figure 154. Balance Sheet (£m)

	30-Sep-11
Loans & Investments	2,545
Net current assets (liabilities)	122
	2,667
Shareholders' Funds	1,366
Borrowings	1,301
	2,667
Annualised ROE	13%
Gearing Ratio	95%
Debt Facilities	1,767
Headroom	**615**

Source: Company data, CIRA

Figure 155. Debt Maturity Profile



Source: Company data

ICG – Key Financials

Figure 156. ICG – Summary P&L (£m]

March Year End	1H 11/12	2H 11/12E	FY 12E	FY 13E	FY 14E	1H 11/12A	2H 11/12E	FY 12E	FY 13E	FY 14E
Group										
Interest and dividend income	132.7	128.6	261.3	266.1	282.9	8%	8%	8%	2%	6%
Gains on investments	42.1	27.9	70.0	60.0	70.0	-51%	-40%	-48%	-14%	17%
Fee and other operating income	31.0	33.8	64.8	59.8	70.8	13%	-6%	2%	-8%	18%
Total income	205.8	190.3	396.1	385.9	423.6	-13%	-6%	-10%	-3%	10%
Interest payable and other related financing costs	-22.6	-42.2	-64.8	-66.1	-67.4	27%	2%	9%	2%	2%
Provisions for impairments of assets	-28.4	-35.0	-63.4	-52.2	-35.9	-47%	97%	-11%	-18%	-31%
Administrative expenses	-46.1	-44.7	-90.8	-96.2	-100.4	-24%	-27%	-26%	6%	4%
Profit before tax	108.7	68.3	177.0	171.4	219.9	3%	-16%	-5%	-3%	28%
Tax expense	-23.7	-21.8	-45.5	-50.9	-65.4					
Minority Interest	-0.3	0.1	-0.2	-0.2	-0.3					
Attributable profit	85.1	46.5	131.3	120.3	154.2	26%	-23%	2%	-8%	28%
Dividend	-23.7	-47.4	-71.1	-75.5	-79.3					
EPS	**21.6**	**11.8**	**33.3**	**30.3**	**38.8**	**25%**	**-23%**	**2%**	**-9%**	**28%**
DPS	6.0	12.0	18.0	19.0	20.0	0%	0%	0%	6%	5%
Fund Management Company										
Dividend income	2.2	2.2	4.4	4.2	4.0	100%	-61%	-35%	-5%	-5%
External mezz fund management fee income	17.2	17.2	34.4	33.2	43.2	6%	6%	6%	-3%	30%
Internal mezz fund management fee income	12.0	10.3	22.3	22.8	24.2	-3%	-13%	-8%	2%	6%
External credit fund management fee income	13.1	15.9	29.0	25.1	26.1	32%	15%	22%	-13%	4%
Internal credit fund management fee income	0.6	0.6	1.2	1.2	1.2	0%	-25%	-14%	0%	0%
Total fund management fee income	42.9	44.0	86.9	82.4	94.8	10%	3%	6%	-5%	15%
Total fund management costs	-28.0	-26.6	-54.6	-56.3	-57.4	20%	0%	9%	3%	2%
FMC Profit before tax	**17.1**	**19.6**	**36.7**	**30.3**	**41.4**	**1%**	**-10%**	**-5%**	**-17%**	**37%**
Assets under management	**10,417**	**10,435**	**10,435**	**10,682**	**12,923**	**3%**	**0%**	**0%**	**2%**	**21%**
Mezzanine and Growth Capital AUM	3,274	3,274	3,274	3,374	5,274	10%	7%	7%	3%	56%
Credit Fund Management AUM	4,599	4,926	4,926	5,026	5,226	0%	0%	0%	2%	4%
Total third party AUM	7,872	8,200	8,200	8,400	10,500	4%	3%	3%	2%	25%
Investment Company AUM	2,545	2,235	2,235	2,282	2,423					
External mezz fund mgmt income / AUM	1.05%	1.05%	1.05%	1.00%	1.00%					
External CFM income / AUM	0.57%	0.57%	0.50%	0.50%	0.50%					
Investment Company										
Interest income	129.1	125.0	254.1	259.1	276.1	6%	10%	8%	2%	7%
Interest expense	-30.7	-34.1	-64.8	-66.1	-67.4	17%	17%	17%	2%	2%
Net interest income	**98.5**	**90.9**	**189.3**	**193.0**	**208.7**	4%	7%	**5%**	**2%**	**8%**
Other fee income	0.7	0.7	1.4	1.4	1.4	-50%	-88%	-81%	0%	0%
Net fair value gain on hedging derivatives	8.1	-8.1	0.0	0.0	0.0	-5%	-34%	0%	0%	0%
IC income	108.7	84.9	193.5	197.2	212.9	4%	8%	6%	2%	8%
Staff costs	-6.0	-6.0	-12.0	-12.4	-12.6	88%	2%	32%	3%	2%
MTIS	-6.0	-6.0	-12.0	-12.2	-13.0	-41%	-53%	-47%	2%	7%
Internal FMC charge	-12.6	-10.9	-23.5	-24.0	-25.4	-3%	-14%	-8%	2%	6%
Administrative costs	-1.6	-1.6	-3.2	-3.3	-3.4	-76%	-41%	-66%	3%	2%
IC expenses	-26.2	-24.5	-50.7	-51.9	-54.4	-21%	-28%	-24%	2%	5%
IC PBT pre-gains and impairments	**82.5**	**60.3**	**142.7**	**145.3**	**158.4**	15%	36%	**23%**	**2%**	**9%**
Gains on investments	42.1	27.9	70.0	60.0	70.0	-51%	-40%	-48%	-14%	17%
MTIS	-4.5	-4.5	-9.0	-12.0	-14.0	-74%	-67%	-71%	33%	17%
Net gains on investments	37.6	23.4	61.0	48.0	56.0	-46%	-29%	-40%	-21%	17%
Gross impairments	-39.6	-42.8	-82.4	-71.2	-60.6	-27%	21%	-8%	-14%	-15%
Recoveries	11.2	7.8	19.0	19.0	24.7	833%	-56%	1%	0%	30%
Impairments	-28.4	-35.0	-63.4	-52.2	-35.9	-47%	97%	-11%	-18%	-31%
IC gains / losses	9.2	-11.6	-2.4	-4.2	20.1	-44%	-176%	-108%	75%	-576%
IC Profit before tax	**91.7**	**48.7**	**140.3**	**141.1**	**178.5**	**4%**	**-18%**	**-5%**	**1%**	**27%**

Source: Citi Investment Research and Analysis

Figure 157. Intermediate Capital – Sum of the Parts Valuation (pence)

Sum of the Parts	**p**
Mezzanine finance	118
Equity investments	105
Asset Management	6
Fair value (SOP)	229
Rounded Target Price	**230**

Source: Citi Investment Research and Analysis

Valuation. We value ICG as the sum of three parts:

Loan portfolio. We value this at a 30% discount to book. According to Standard and Poor's LCD and S&P/LSTA Leveraged Loan Index and Markit LCDX, first lien loans trade at a ~10% discount to par. We assume a further 10% discount to 2nd lien and a further 10% discount on mezzanine loans to arrive at our 30% discount assumption in valuing ICG's loan portfolio. We forecast the Mar 12 loan book will be £1,847m and shareholders' funds will be £1,366m. With an assumed £698m supporting equity investments, this implies £668m supports the loan book, with the rest debt-funded.

At a 30% discount, we estimate the value to be £468m, or 118p per share.

Equity investments. We value these at 0.6x book.

Considering that equity is even lower in the capital structure, it should be valued at a larger discount to mezzanine book, in our view. Last reported (Sept 11), there were £698m investments. As 0.6x, the implied value is ~£279m, or 105p per share.

Fund management. We value this on a DCF basis. We attribute value only to the external revenues of this division, but charge all costs. We assume 5% medium-term growth in AUM, followed by 2% longer term and in perpetuity. On a DCF basis, we estimate the division still has a value of ~£25m, or 6p per share. Our total sum of the parts value for ICG is therefore 229p for share. Accordingly, we set our target price at a rounded 230p.

Intermediate Capital Group

Company description

Intermediate Capital Group (ICG) was founded in 1989 and floated in 1994. It is a specialist arranger and provider of mezzanine or intermediate capital, and also manages third-party funds. It has offices in Paris, Hong Kong, Stockholm, Madrid, Frankfurt, Sydney, Tokyo and New York (opened 2007).

Investment strategy

We rate ICG Neutral. We forecast ICG generates 8% ROE FY Mar 12, rising to 10% FY Mar 13 and 11% FY Mar 14. We believe our 10% near-term ROE average forecast (FY12-14) is adequately reflected in the meaningful discount to book at which the shares are currently trading.

Valuation

We value ICG as the sum of three parts:

Loan portfolio. We value this at a 30% discount to book. According to Standard and Poor's LCD and S&P/LSTA Leveraged Loan Index and Markit LCDX, first lien loans trade at a ~10% discount to par. We assume a further 10% discount to 2nd lien and a further 10% discount on mezzanine loans to arrive at our 30% discount assumption in valuing ICG's loan portfolio. We forecast the Mar 12 loan book will be £1,847m and shareholders' funds will be £1,366m. With an assumed £698m supporting equity investments, this implies £668m supports the loan book, with the rest debt-funded.

At a 30% discount, we estimate the value to be £468m, or 118p per share.

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Risks

We highlight the following risks to our target price.

1. **Credit quality.** The provisions charge for loan and equity impairment could be higher than expected if economic growth expectations deteriorate further. Wider macro-economic shocks (e.g. sovereign debt worries) could also cause corporate profit wobbles. This would hit the group's bottom-line pre-tax profit and book value.

2. **Bank debt.** ICG has around £300m debt maturing in FY12 and £430m in FY13. ICG is dependent on portfolio realisations to generate adequate cashflow to repay its debt on schedule, or it will need to refinance at (potentially) higher rates than its current average cost of debt. Considering the current lack of liqudity in the credit markets, we are cautious on the funding situation of ICG.

3. **Exit environment.** We are cautious on the current exit environment due to the volatile market conditions. If the markets stabilise earlier than expected, then ICG could achieve further realisations on its portfolio, thus higher than expected capital gains, which would constitute an upside risk to our estimates.

4. **Investment and fundraising environment.** We are cautious on the current investment and fundraising environment due to the volatile market conditions. If the markets stabilise earlier than expected, then ICG could achieve higher than expected growth of its loan book and funds under management, which would constitute an upside risk to our estimates.

Company Focus

- Company Update
- Rating Change
- Target Price Change
- Estimate Change

Haley A Tam, CFA
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haley.tam@citi.com

Neutral	**2**
from Buy	
Price (14 Dec 11)	£2.26
Target price	£2.30
from £2.40	
Expected share price return	2.0%
Expected dividend yield	3.3%
Expected total return	**5.3%**
Market Cap	£1,033M
	US$1,598M

Price Performance
(RIC: JUP.L, BB: JUP LN)

Jupiter Fund Management (JUP.L)
Market Sensitive

- **Summary** — We downgrade Jupiter from Buy to Neutral, reflecting our relatively neutral outlook for markets in 2012, and the high degree of sensitivity of Jupiter's business model to that view.

- **UK Specialist** — Jupiter's core UK franchise continues to be a strong one. However, UK industry retail fund flows have slowed, and the outlook here remains challenging, in our view. Set against this backdrop, we forecast a 5% fall in AUM to end 2011, compared to 23% growth in 2010.

- **Good business, offset by market** — We continue to view Jupiter as one of the strongest UK mutual fund franchises, helped particularly by its strength of performance in the multi-manager (Merlin) fund range. We believe it will see superior fund flows to peers in this space, but this is not enough to offset the fall in AUM that we forecast in late 2011 due to markets and lower flows.

- **Lack of Earnings Momentum** — As a result of this reversal in AUM trend in 2011, we forecast -4% decline in EPS in 2012 vs. 2011 (due to the averaging impact on earnings of a fall in AUM late in 2011).

- **Premium Valuation** — On our forecasts, Jupiter trades at 12x 2012E PE, vs. peer group 9.9x. This premium can be justified by its superior fund flow track record and performance record, in our view – but looking for extra premium on top of this is perhaps a stretch too far.

- **Longer term growth** — Jupiter remains a relatively under-utilised brand name in retail fund management, in our view. It has scope to offer more funds to investors outside its core traditional UK Equity fund range – e.g. in Emerging Markets, Credit funds, - and to offer funds to investors outside its core traditional UK client base – e.g. in Europe, SICAVs and beyond.

- **Neutral, 230p target price** — We rate Jupiter Neutral. We reduce EPS forecasts slightly today to reflect more modest fund flow expectations. This has a knock on impact on our target price, which falls from 240p to 230p.

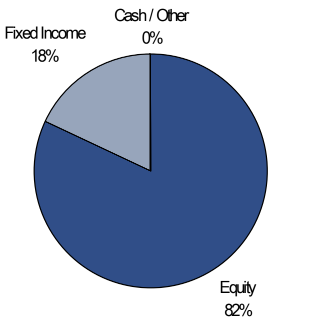
Jupiter Fund Management (GBP)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Net Income (£M)	32.9	80.6	89.5	85.7	90.6
Diluted EPS (p)	7.2	17.6	19.6	18.7	19.8
Diluted EPS (Old) (p)	7.2	17.6	19.6	19.1	20.7
PE (x)	31.4	12.8	11.6	12.1	11.4
P/BV (x)	4.0	1.7	2.0	2.3	2.5
DPS (p)	0.0	4.7	7.5	8.0	8.5
Net Div Yield (%)	0.0	2.1	3.3	3.5	3.8
ROE (%)	na	10.1	13.9	13.8	15.6

Jupiter Fund Management

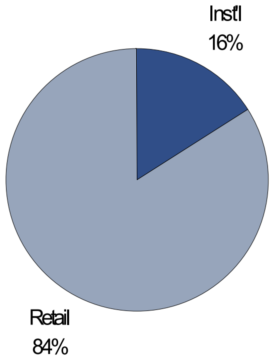
Key Charts

Figure 158. Jupiter – End June AUM split by asset class



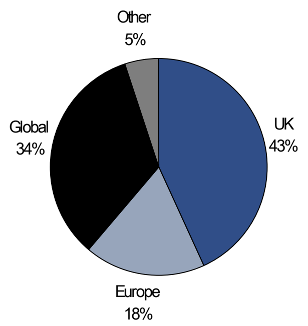
Source: Company Reports

Figure 159. Jupiter – End September AUM split by investor type



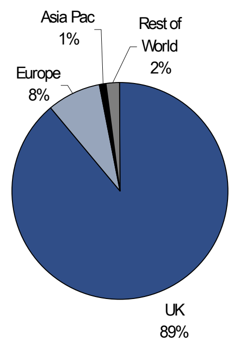
Source: Company Reports

Figure 160. Jupiter – end June AUM split by invested geography



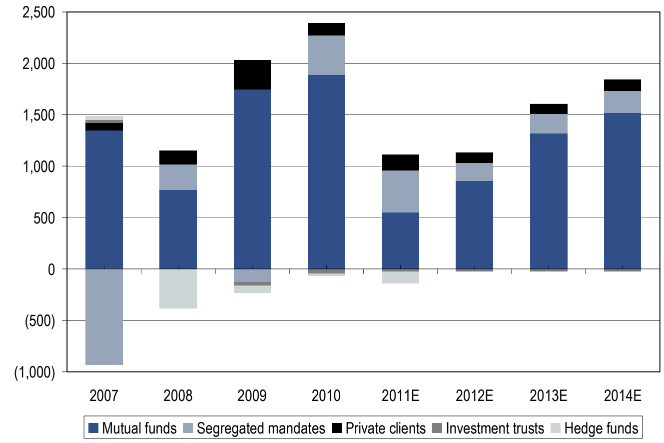
Source: Company Reports

Figure 161. Jupiter – end June AUM split by client geography



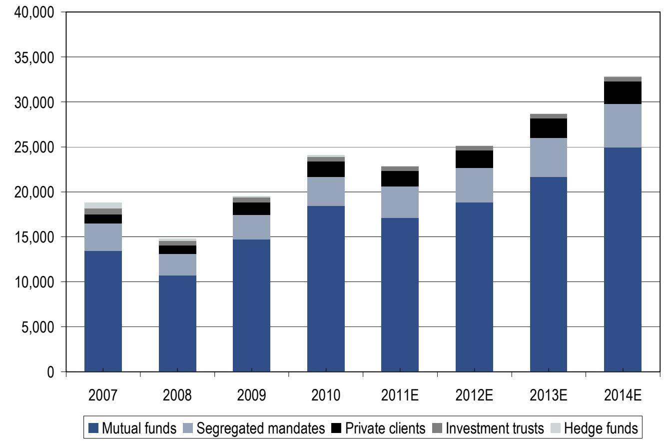
Source: Company Reports

Figure 162. Jupiter – net fund flows, history and forecast £m



Source: Company reports, Citi Investment Research and Analysis

Figure 163. Jupiter – AUM, history and forecast £m



Source: Company reports, Citi Investment Research and Analysis

Financial Forecasts

Figure 164. Jupiter – Summary P&L History and Forecast

	Absolute								% yoy						
Income Statement £m	2007	2008	2009	2010	2011E	2012E	2013E	2014E	2008	2009	2010	2011E	2012E	2013E	2014E
Net management fees	185.8	167.3	158.5	204.7	224.8	217.0	236.9	264.7	-10%	-5%	29%	10%	-3%	9%	12%
Net initial charges and commissions	21.2	18.8	18.5	20.1	19.5	19.1	14.0	15.2	-11%	-2%	9%	-3%	-2%	-27%	8%
Performance fees	21.5	14.5	5.2	5.7	8.0	9.0	9.4	9.8	-32%	-64%	10%	40%	13%	4%	5%
Total Net Revenues	228.5	200.6	182.2	230.5	252.4	245.1	260.4	289.7	-12%	-9%	27%	9%	-3%	6%	11%
Total administrative expenses	(126.6)	(111.9)	(92.9)	(115.1)	(127.6)	(128.7)	(136.6)	(148.6)	-12%	-17%	24%	11%	1%	6%	9%
Fixed staff costs	(35.7)	(36.6)	(38.4)	(39.1)	(38.3)	(39.8)	(42.0)	(44.9)	3%	5%	2%	-2%	4%	5%	7%
Variable staff costs	(58.2)	(38.3)	(25.8)	(40.3)	(51.8)	(49.5)	(53.3)	(58.3)	-34%	-33%	56%	29%	-4%	8%	9%
Non Staff Costs	(32.7)	(37.0)	(28.7)	(35.7)	(37.5)	(39.4)	(41.3)	(45.5)	13%	-22%	24%	5%	5%	5%	10%
Operating earnings	101.9	88.8	89.2	115.4	124.7	116.4	123.7	141.1	-13%	1%	29%	8%	-7%	6%	14%
Other operating income	1.6	0.9	0.6		0.0	0.0	0.0	0.0	-47%	-26%					
Other gains / losses	4.0	(9.6)	2.4	1.7	0.0	0.0	0.0	0.0	-342%	-125%	-30%				
Amortisation of intangibles	(22.6)	(39.7)	(39.9)	(39.8)	(39.8)	(39.8)	(39.8)	(21.5)	76%	0%	0%	0%	0%	0%	-46%
Operating Profit	84.9	40.3	52.4	77.3	84.9	76.6	83.9	119.7	-53%	30%	47%	10%	-10%	9%	43%
Finance income	11.4	8.5	1.2	0.9	1.1	0.7	0.8	0.9	-26%	-86%	-24%	24%	-38%	12%	14%
Finance expense	(41.0)	(64.7)	(46.4)	(29.0)	(12.9)	(6.3)	(4.4)	(2.6)	58%	-28%	-38%	-56%	-51%	-30%	-42%
Profit before tax & exceptionals	55.3	(15.9)	7.2	49.2	73.1	71.0	80.2	118.0	-129%	-145%	586%	49%	-3%	13%	47%
Exceptional costs				(6.8)											
Profit before tax	55.3	(15.9)	7.2	42.4	73.1	71.0	80.2	118.0	-129%	-145%	491%	73%	-3%	13%	47%
Tax	(13.5)	0.3	1.4	(9.9)	(19.2)	(17.9)	(20.3)	(29.8)							
Profit / (loss) for the financial period	41.8	(15.6)	8.6	32.5	53.9	53.1	60.0	88.2	-137%	-155%	278%	66%	-2%	13%	47%
EBITDA	103.7	90.7	90.6	124.6	135.7	124.4	129.1	144.3	-13%	0%	38%	9%	-8%	4%	12%
Underlying Operating Earnings	101.9	88.8	89.2	123.2	134.2	122.8	127.5	142.6	-13%	1%	38%	9%	-8%	4%	12%
Underlying PBT (pre-amort and IPO options charge, add-back divi / int)	77.9	23.8	47.1	112.0	121.8	116.5	123.2	140.3	-69%	97%	138%	9%	-4%	6%	14%
Underlying PAT	58.9	23.4	32.9	80.6	89.5	85.7	90.6	103.1	-60%	41%	145%	11%	-4%	6%	14%
					0%	0%									
Diluted EPS			3.2	11.1	11.8	11.6	13.1	19.3			247%	6%	-2%	13%	47%
Diluted Adj EPS			7.2	17.6	19.6	18.7	19.8	22.5			145%	11%	-4%	6%	14%
Dividends per Share				4.7	7.5	8.0	8.5	9.0				60%	7%	6%	6%
Weighted average diluted EPS shares			268.8	292.7	457.7	457.7	457.7	457.7			9%	56%	0%	0%	0%
Memo: Restricted Shares				130.2	86.7	44.5	1.4	0.0							
Ratios															
Net management fee margin (bp)		99.6	97.4	96.4	93.3	90.4	88.0	86.0		-2%	-1%	-3%	-3%	-3%	-2%
Net revenues margin (bp)		119.5	111.9	108.6	106.3	102.1	96.7	94.1		-6%	-3%	-2%	-4%	-5%	-3%
Number of employees	483	506	461	402	414	422	434	455	5%	-9%	-13%	3%	2%	3%	5%
Average no. of employees	485	496	474	444.0	411	418	428	445	2%	-4%	-6%	-8%	2%	2%	4%
Fixed staff costs / employee (£000)	(73.6)	(73.8)	(81.0)	(88.1)	(93.4)	(95.2)	(98.1)	(101.0)	0%	10%	9%	6%	2%	3%	3%
Var comp as % pre-VC op earnings	-36.4%	-30.1%	-21.2%	-20.9%	-24.0%	-26.0%	-28.0%	-28.5%	-17%	-30%	-2%	15%	8%	8%	2%
Non Staff Costs / Net Revenues	-14.3%	-18.4%	-15.8%	-15.5%	-14.9%	-16.1%	-15.9%	-15.7%							
Cost / income ratio	-55%	-56%	-51%	-50%	-51%	-52%	-52%	-51%	1%	-9%	-2%	1%	4%	0%	-2%
Cost / management fees	-68%	-67%	-59%	-56%	-57%	-59%	-58%	-56%	-2%	-12%	-4%	1%	4%	-3%	-3%
Costs / AUM		-0.67%	-0.57%	-0.54%	-0.54%	-0.54%	-0.51%	-0.48%		-14%	-5%	-1%	0%	-5%	-5%
Operating Margin	44.6%	44.2%	49.0%	50.1%	49.4%	47.5%	47.5%	48.7%							
Interest income / cash			0.5%	0.4%	0.8%	0.4%	0.4%	0.4%							
Interest expense / bank debt			-7.4%	-10.3%	-9.1%	-6.2%	-7.2%								
Interest cover	-2.5x	-1.4x	-2.0x	-4.3x	-10.5x	-19.6x	-29.1x	-56.1x							

Source: Company reports, Citi Investment Research and Analysis

Figure 165. Jupiter – Summary AUM History and Forecast

£m	2007	2008	2009	2010	2011E	2012E	2013E	2014E	2008	2009	2010	2011E	2012E	2013E	2014E
Group Summary															
Opening AUM	17,420	18,769	14,814	19,523	24,078	22,869	25,126	28,724							
Gross sales	4,408	3,993	4,951	6,754	6,068	5,813	3,890	5,110	-9%	24%	36%	-10%	-4%	-33%	31%
Outflows	(3,858)	(3,229)	(3,146)	(4,434)	(5,094)	(4,699)	(2,304)	(3,289)	-16%	-3%	41%	15%	-8%	-51%	43%
Net sales	550	764	1,805	2,320	974	1,114	1,586	1,821	39%	136%	29%	-58%	14%	42%	15%
Apprecn / Deprecn	799	(4,719)	2,904	2,235	(2,182)	1,143	2,011	2,299							
Closing AUM	18,769	14,814	19,523	24,078	22,869	25,126	28,724	32,844	-21%	32%	23%	-5%	10%	14%	14%
Net flows % open AUM	3%	4%	12%	12%	4%	5%	6%	6%							
Returns % open AUM	5%	-25%	20%	11%	-9%	5%	8%	8%							
AUM by client type															
Mutual funds	13,440	10,709	14,692	18,417	17,128	18,841	21,667	24,917	-20%	37%	25%	-7%	10%	15%	15%
Segregated mandates	3,069	2,400	2,754	3,259	3,471	3,818	4,314	4,875	-22%	15%	18%	6%	10%	13%	13%
Private clients	976	938	1,355	1,693	1,744	1,936	2,187	2,472	-4%	44%	25%	3%	11%	13%	13%
Investment trusts	661	524	546	527	471	471	485	499	-21%	4%	-3%	-11%	0%	3%	3%
Hedge funds	623	243	175	181	55	61	70	80	-61%	-28%	3%	-70%	10%	15%	15%
	18,769	14,814	19,522	24,077	22,868	25,125	28,723	32,843	-21%	32%	23%	-5%	10%	14%	14%
Net Flows by client type															
Mutual funds	1,346	770	1,747	1,886	553	856	1,319	1,517							
Segregated mandates	(936)	244	(129)	383	407	174	191	216							
Private clients	75	136	286	121	152	105	97	109							
Investment trusts	27	(6)	(32)	(46)	(26)	(24)	(24)	(24)							
Hedge funds	38	(379)	(68)	(24)	(112)	3	3	3							
Net flows	550	765	1,804	2,320	974	1,114	1,586	1,821							
Returns by client type															
Mutual funds	322	(3,501)	2,236	1,839	(1,842)	856	1,507	1,733							
Segregated mandates	263	(913)	483	122	(196)	174	305	345							
Private clients	46	(174)	131	217	(102)	87	155	175							
Investment trusts	76	(131)	54	27	(30)	24	38	39							
Hedge funds	92	(1)	0	30	(14)	3	6	7							
Apprecn / Deprecn	799	(4,720)	2,904	2,235	(2,182)	1,143	2,011	2,299							

Source: Company reports, Citi Investment Research and Analysis

Figure 166. Jupiter – DCF Valuation

Year End: 30 Dec	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Average assets under management	23,752	23,998	26,925	30,784	35,094	39,305	43,235	47,559	52,315	54,930	57,677	60,561	63,589
growth rate		1%	12%	14%	14%	12%	10%	10%	10%	5%	5%	5%	5%
Adjusted EBITDA	118.9	127.7	115.4	119.7	133.1	145.3	155.8	167.1	179.2	183.5	187.9	192.3	196.9
Margin	0.50%	0.53%	0.43%	0.39%	0.38%	0.37%	0.36%	0.35%	0.34%	0.33%	0.33%	0.32%	0.31%
Tax Charge	-32.1	-33.2	-28.8	-28.7	-31.9	-34.9	-37.4	-40.1	-43.0	-44.0	-45.1	-46.2	-47.3
Deduct Interest Cost	-11.8	-5.7	-3.7	-1.7	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0
Deduct Capex	-1.4	-1.4	-1.4	-1.4	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0
Cash Earnings	73.6	87.4	81.4	87.9	94.1	103.4	111.4	120.0	129.2	132.5	135.8	139.2	142.6
PV Cash Earnings	73.2	77.4	64.3	61.8	59.0	57.8	55.5	53.2	51.1	46.7	42.6	38.9	35.6

PV Near-Term Cashflows	717	Risk Free Rate	3.25%
PV Terminal Cashflows	315	Beta	1.70
TOTAL PV, £m	1032	Risk Premium	6.0%
Add Performance Fees at 7 Times	41	Cost of Equity	13.5%
Add cash/(net debt)	-5	Long Term Growth	2.0%
Equity Valuation, £m	1068		
Number of Shares	458		
Theoretical valuation, Pence	233		
Target price, Pence	230		

Source: Company reports, Citi Investment Research and Analysis

Jupiter Fund Management

Company description

Jupiter managed £22.3bn AUM at end September 2011, comprising £16.8bn mutual funds, £3.3bn segregated mandates, £1.7bn private clients, £0.5bn investment trusts and £0.1bn hedge funds. The group is primarily a UK retail mutual fund manager.

Investment strategy

Jupiter has an impressive track record of AUM growth and, amongst UK retail fund managers, appears relatively well positioned to cope with the industry change that looks likely due to the Retail Distribution Review.

However, as a predominantly retail equity focused fund manager, the group will be affected by short - term volatility in equity markets (and resultant impact on retail flows).

Nonetheless, our fundamental DCF valuation approach suggests a target price above the current share price, which supports our Buy recommendation.

Valuation

Our primary valuation methodology is a DCF approach.

We explicitly forecast AUM and cashflows for the next 5 years, and then assume slower rates of growth in AUM over the medium (10% p.a.) and longer (5% p.a.) term. We use a terminal growth rate of 2%.

We use our AUM forecasts to drive cashflow expectations. We discount these using an 12.2% WACC, reflecting a 13.5% cost of equity and 4.8% cost of debt.

The 13.5% cost of equity reflects 3.25% risk free rate, 6.0% equity risk premium and 1.70 beta.

The 4.8% cost of debt is an estimate based on the group's stated floating cost of finance of LIBOR + 3.75%.

We apply gross weights to our cost of debt and cost of equity to derive our WACC. (i.e. gross debt as % market cap + gross debt).

Our DCF estimate of Enterprise Value derived in this way is £1,068m, equivalent to 233p per share. This supports our rounded target price of 230p per share

Risks

The risks we see to Jupiter reaching our target price are as follows:

1. Market risk: Market levels affect AUM values and so the group's revenue-generating ability.

2. Flow risk: As a UK Retail focused manager, Jupiter's fund flows are more volatile than institutional managers'. To date, the group has benefited from a strong brand name and product offering. Poor fund performance and/or industry-wide risk aversion could adversely affect this.

3. Share sale risk: TA Associates own a 19% stake, the lock-up on which expired Dec 2010. We estimate staff own a further 26%, with 3 year staggered lock-ups until June 2013. There have been two share placings since IPO. TA sold 15m shares (3.3%) on 11 May 2011 and staff sold 26.2m (5.7%) shares when the first year lock up expired on 21 Jun 2011. We see any negative impact of big placings offset by the longer term benefit of improved trading liquidity.

4. Retail Distribution Review risk: Jupiter faces uncertainty over its operating environment, with RDR due to be implemented after 1 Jan 2013.

5. Key Man Risk: Over half of group AUM is managed by just four (teams of) managers.

Company Focus

- Company Update
- Target Price Change
- Estimate Change

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Neutral	**2**
Price (14 Dec 11)	£1.34
Target price	£1.30
from £1.58	
Expected share price return	-3.1%
Expected dividend yield	7.5%
Expected total return	**4.4%**
Market Cap	£2,462M
	US$3,812M

Price Performance
(RIC: EMG.L, BB: EMG LN)

Man Group PLC (EMG.L)

Waiting for a catalyst

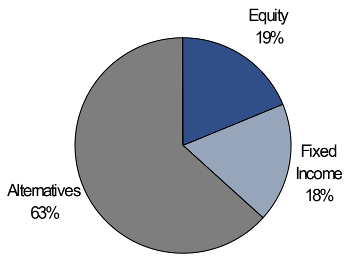
- **Summary** — Lack of earnings momentum is the biggest single problem at Man Group, in our view. We look to any one of a number of possible drivers for near-term future momentum: i) performance fees, ii) market / fund flow recovery, iii) significant further share buybacks, iv) cost cutting, and v) in-fill acquisitions (we hope not).
- **Performance fees** — **AHL** has historically been the single largest contributor to performance fees at Man, but the bulk of AHL AUM has remained resolutely below high water marks set at end 2008. We estimate that the flagship AHL Diversified (Guernsey) USD fund is now 10% below high water marks.
- **Performance fees** — **GLG**. Man Group has acknowledged that GLG needs to generate performance fees in order to be profitable. Management remains upbeat on the potential for this to happen: it notes that around 45% of GLG's $15.8bn performance fee eligible AUM is now 5% or less below high water mark.
- **Market / Fund Flow recovery** — Following its acquisition of GLG in October 2010, Man has significantly increased the market sensitivity of its group AUM. Its Long Only AUM is particularly sensitive to Japanese equity market trends. We forecast modest recovery in 2012 (to +6% investment returns, +1% net inflows).
- **Share buybacks** — On 3 November, Man announced up to $150m share buy backs by year end. It is our understanding that if any of this is unutilised by year end, this will continue into the New Year. However, scope for further buybacks is limited, in our view. Man has indicated it prefers dividends to buybacks.
- **Dividend support** — Man has indicated it is likely to pay 22c DPS in 2012. This is uncovered by Citi 2012E EPS, and by our management fee EPS forecasts out to 2015. However, Man has $1bn surplus capital (vs. dividend payments of ~$300m pa), so we consider the dividend safe at this level.
- **Cost cutting** — We see little scope for further cost cutting by Man Group in 2012 – if it was to announce a significant plan here, we would see this as a clear positive catalyst for the shares.
- **Neutral** — We rate Man Group Neutral with a 130p target price. This is reduced from our previous 158p target price, reflecting a change in valuation approach from DCF to peer group PE valuation. Whilst DCF is best for establishing a true fair value for shares, without any catalysts for valuation re-rating, we believe SOP PE valuation provides the most accurate guide to where share prices will trend.

Man Group PLC (USD)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Net Income ($M)	568.7	461.5	345.8	369.0	567.9
Diluted EPS (¢)	33.3	27.1	18.6	20.3	31.3
Diluted EPS (Old) (¢)	33.3	27.1	18.8	20.3	30.8
PE (x)	6.2	7.6	11.2	10.2	6.6
P/BV (x)	0.8	0.9	0.8	0.9	0.9
DPS (¢)	44.0	27.5	22.0	22.0	24.0
Net Div Yield (%)	21.2	13.3	10.6	10.6	11.6
ROE (%)	9.9	7.1	6.7	8.5	13.6

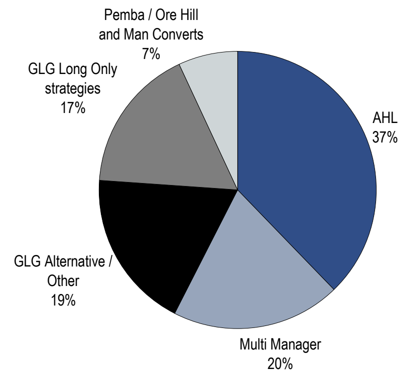
Key Charts

Figure 167. Man Group – End September AUM, split by asset class



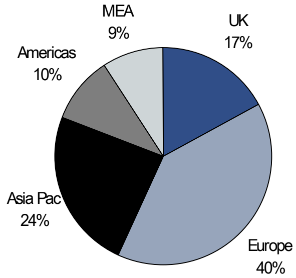
Source: Company Reports and CIRA Estimates

Figure 168. Man Group – End September AUM, split by manager



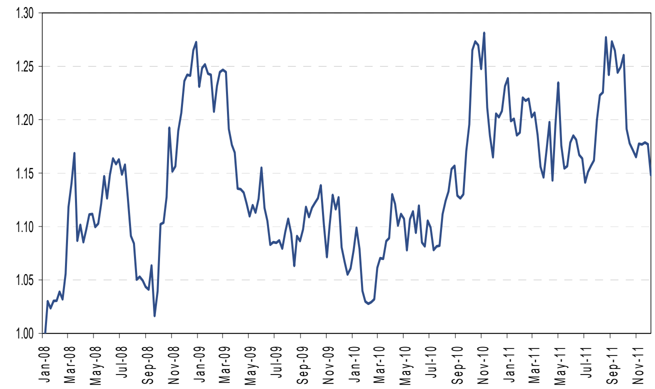
Source: Company Reports and CIRA Estimates

Figure 169. Man Group – split of September AUM by client geography



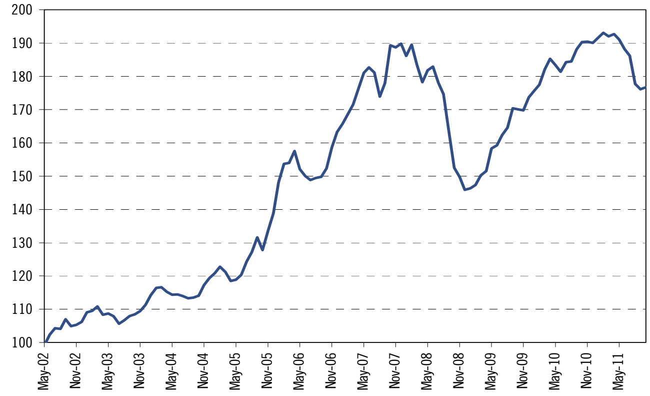
Source: Company Reports and CIRA Estimates

Figure 170. Man AHL Diversified (Guernsey) USD – Jan 08 – Nov 11



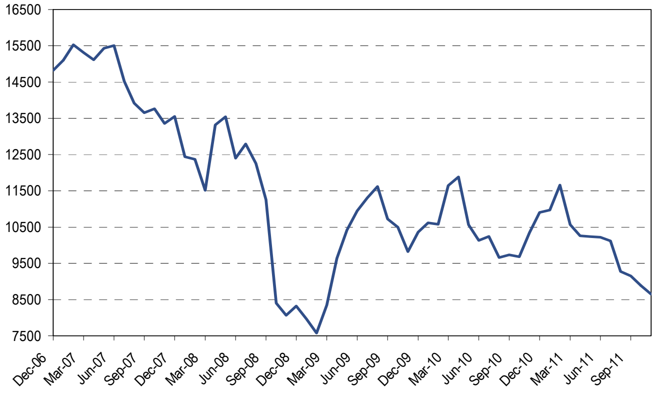
Source: Company Reports

Figure 171. GLG – Global Opportunity Fund NAV



Source: Company Reports

Figure 172. GLG – Japan Core Alpha Fund NAV



Source: Company Reports

Financial Forecasts

Figure 173. Man Group – Summary Financial History and Forecast

		Absolute							YoY Growth			
March Year-End (US$m)	**FY08**	**FY09**	**FY10**	**FY10/11E**	**9m 11E**	**2012E**	**2013E**	**FY09**	**FY10**	**FY11E**	**9m11E**	**FY12E**
Assets Under Management (US$bn)												
Opening AUM	61.7	74.6	46.8	39.4	69.1	61.8	67.5	21%	-37%	-16%	75%	-11%
Net Sales	4.9	-2.1	-4.5	-2.0	-0.2	0.8	4.8	-143%	114%	-56%	-90%	-508%
Investment Movement	5.6	-6.6	-0.9	2.8	-3.6	3.8	4.5	-218%	-86%	-411%	-228%	-206%
FX		-4.2	1.4	2.0	-0.5	0.0	0.0		-133%	43%	-124%	-100%
Other Movements, Including Acqsn	2.4	-14.9	-3.4	26.9	-3.0	1.0	1.0	-721%	-77%	-891%	-111%	
Closing AUM	**74.6**	**46.8**	**39.4**	**69.1**	**61.8**	**67.5**	**77.8**	**-37%**	**-16%**	**75%**	**-11%**	**9%**
By investor type:												
Guaranteed	31.0	16.4	14.0	15.1	10.2	11.5	13.8	-47%	-15%	8%	-33%	13%
Open Ended	12.5	11.4	12.8	27.3	28.1	31.2	36.4	-9%	12%	113%	3%	11%
Institutional	31.1	19.0	12.6	12.7	12.7	13.4	14.7	-39%	-34%	1%	0%	5%
Long Only	0.0	0.0	0.0	14.0	10.8	11.4	12.9				-23%	5%
P&L Statement (US$m)												
Management fee revenues	2,030	1,861	1,293	1,452	1,176	1,471	1,667	-8%	-31%	12%	-19%	25%
Performance fee revenues	1,141	627	52	203	104	202	390	-45%	-92%	290%	-49%	94%
Sales commissions	-391	-411	-325	-318	-229	-296	-344	5%	-21%	-2%	-28%	29%
Gains / (losses) on investments	0	-260	39	25	-2	25	25					
Total operating income	**2,780**	**1,817**	**1,059**	**1,362**	**1,049**	**1,402**	**1,738**	**-35%**	**-42%**	**29%**	**-23%**	**34%**
Compensation costs	-639	-463	-330	-501	-441	-506	-559	-28%	-29%	52%	-12%	15%
Other costs	-238	-275	-232	-281	-275	-396	-436	16%	-16%	21%	-2%	44%
Operating Profits	**1,903**	**1,079**	**497**	**580**	**334**	**500**	**743**	**-43%**	**-54%**	**17%**	**-42%**	**50%**
Associates and Joint Ventures	86	144	70	65	5	7	7	67%	-51%	-7%	-92%	40%
Net Interest Income	90	20	-7	-46	-53	-32	-32	-78%	-135%	557%	15%	-40%
PBTE	**2,079**	**1,243**	**560**	**599**	**286**	**475**	**719**	**-40%**	**-55%**	**7%**	**-52%**	**66%**
of which: Management fees	**1,143**	**885**	**463**	**430**	**209**	**329**	**416**	**-23%**	**-48%**	**-7%**	**-51%**	**57%**
of which: Performance fees	**936**	**358**	**97**	**169**	**77**	**146**	**302**	**-62%**	**-73%**	**74%**	**-55%**	**90%**
Exceptional items	0	-500	-19	-275	0	0	0					
Total PBT	2,079	743	541	324	286	475	719	-64%	-27%	-40%	-12%	66%
Tax	-362.0	-240.0	-96.0	-51.0	-48.7	-81.8	-127.1	-34%	-60%	-47%	-4%	68%
Minority interests, hybrid capital costs	0.0	-17.8	-23.8	-23.8	-17.8	-23.8	-23.8					
Attributable Earnings, Pre-Amort	1,717	485	421	249	219	369	568	-72%	-13%	-41%	-12%	69%
Fully Diluted cont EPS, Cents	**90.2**	**56.9**	**25.4**	**27.7**	**11.8**	**20.3**	**31.3**	**-37%**	**-55%**	**9%**	**-57%**	**73%**
Underlying Fully Diluted EPS, Cents	**52.5**	**41.7**	**21.0**	**19.0**	**8.5**	**13.9**	**18.0**	**-21%**	**-50%**	**-10%**	**-55%**	**64%**
DPS, Cents	**44.0**	**44.0**	**44.0**	**22.0**	**16.5**	**22.0**	**24.0**	**0%**	**0%**	**-50%**	**-25%**	**33%**
Avg Number of Fully Diluted Shares	1,909.5	1,707.9	1,700.0	1,776.5	1,859.1	1,814.5	1,814.5	-11%	0%	4%	5%	-2%

Source: Company reports, Citi Investment Research and Analysis

Figure 174. Man Group – SOP PE valuation

	CY 12E PBT $Millions	Tax Rate %	2012E PAT $Millions	P/E Times	Valuation $millions	Value per share
Management Fees	329	23%	252	11.0	2,777	97
Performance Fees	146	20%	117	5.5	641	22
Sub total	475	22%	369	9.3	3,418	119
Surplus Capital*					304	11
Valuation for Man Group				10.9	3,722	130
Diluted Number of Shares, m					1,814	
Target Price, US Cents					205	
Valuation (pence)					**130**	
Target price (pence)					**130**	

Source: Citi Investment Research and Analysis. *$150m included at par (to reflect share buybacks). Remaining $850m included at 18% par value, reflecting assumed 4% return on surplus capital vs. 13% cost of equity.

Man Group PLC

Company description

Man Group floated in 1994, de-merging its Agricultural Products business in 2000 and its Brokerage business in 2007. It acquired GLG in October 2010. It has $62.7bn AUM (1 Nov 2011). It manages AUM in four categories: Guaranteed Products, Open Ended Alternatives, Institutional Fund of Funds and Long Only.

Investment strategy

We rate Man Group Neutral.

Zero momentum. Man's underlying EPS (excluding performance fees) have offered little forward momentum in recent years. This reflected poor fund flows in the core business, and no real investment return momentum.

GLG acquisition (October 2010) was intended to diversify Man's AUM Mix and to provide this forward momentum. However, it has ended up adding market sensitivity just before a significant pull back in markets, and has - if anything - increased the volatility of earnings, not reduced it.

Unpredictable catalysts. Man needs to see strong AHL performance to help higher margin AHL open ended and guaranteed AUM performance and flow. It also needs to see wider market recovery to help lower margin Alternatives and Long Only AUM.

Valuation

We set a 130p price target. This is based on the fair value suggested by a peer-group SOP PE approach.

In our SOP PE model, we apply 11x PE multiple to 2012E management fee earnings, and 5.5x to 2012E performance fee earnings.

We then also include $1bn surplus capital at $150m par value (promised in share buybacks) and $850m at 18% of par value (we assume it can generate a long-term return of 4% vs. 12.8% discount rate and 2.0% long-term growth rate).

This gives us a fair value of 130p per share, which we use to set our target price.

Risks

The following risk factors could prevent the achievement of our target price.

1. **Poor Performance of AHL.** AHL makes up one-third of total group AUM, and we estimate accounts for 50-60% of group PBT. It is a volatile performer, and the proportion of funds above, or close to high water marks changes quickly.

   Poor AHL performance means:

   a. Poor retail fund flows,

   b. Poor investment returns and performance fees, and

   c. AUM loss due to rebalancing.

2. **Margin uncertainty.** The profitability of the business could be lower than expected in the future. We see competitive and/or performance pressure on revenue margins and higher regulatory and administrative costs.

3. **GLG risk**. If key investment managers leave the firm after lock-ups expire, Man may see GLG AUM follow suit. In addition, the revenue synergies of the deal have yet to be demonstrated, whilst the additional cost base, revenue margin dilution and increased market beta impact has already been felt.

Company Focus

Provident Financial PLC (PFG.L)

Tough Outlook for 2012

- Company Update

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Sell	**3**
Price (14 Dec 11)	£9.49
Target price	£9.20
Expected share price return	-3.0%
Expected dividend yield	7.0%
Expected total return	**4.0%**
Market Cap	£1,299M
	US$2,011M

Price Performance
(RIC: PFG.L, BB: PFG LN)

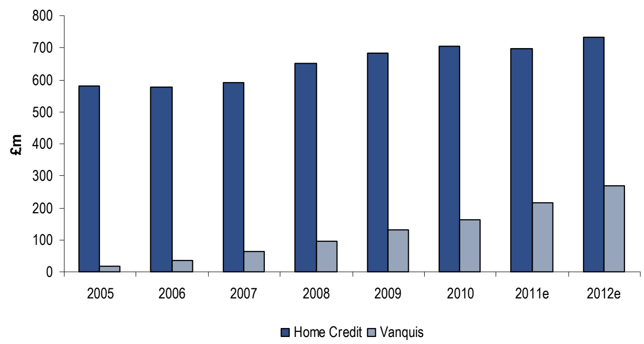
- **Tough consumer outlook:** Provident Financial has seen a robust performance in 2011 driven by strong growth from Vanquis. That said, the outlook for the UK consumer in 2012 is deteriorating, and with rising unemployment we continue to worry about the risk of rising impairments in the Vanquis business.
- **Home Credit set for low growth:** Growth in 2011 has been driven by lending more to existing customers, meaning while we look for y/e receivables to grow by 3% YoY, customer growth is set to fall by 1% YoY. However, the uncertain economic outlook, means we remain concerned by the impact of customer's increasing reluctance to borrow could have on receivable growth.
- **Rising unemployment a concern for Vanquis:** Vanquis has seen strong growth in the past 12 months, with our estimates looking for customers to grow 25% YoY and receivables 30% YoY to £450m in 2011. However, looking into 2012, there is a risk that rising unemployment results in impairments increasing, our estimates look for 41% in 2012 (vs. 39% in 2011).
- **Regulatory threats remain:** While the recent BIS review on Consumer Credit and Personal Insolvency has been completed, the market research into the introduction of rate caps is ongoing (expected outcome H112). Historically such reviews have proved inconclusive but should these be implemented it would require Provident Financial's Home Credit business model to be changed.
- **Funding challenges to be resolved:** Provident Financial has made good strides to broaden its funding base, with the launch of its retail bonds (1-5 year in maturity) and the company remains on track to meet c. £125m target by 31st Dec '11 and 80% of Vanquis' receivables by the end of 2012. That said it still has c.£380m bank funding maturing in May 2013 to refinance, most likely in H112.
- **Downside risk remains given uncertainty:** While Provident Financial's valuation may arguably becoming more attractive it is clear the UK economic outlook is getting tougher and we see few short term catalysts for the stock. Further, the shares are still trading 4.1x fwd 12m Price to Book, a slight premium to their historical average. We retain our Sell (3) rating.

Provident Financial PLC (GBP)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Net Income (£M)	93.7	104.0	119.6	132.1	141.3
Diluted EPS (p)	71.2	78.5	89.4	98.7	105.6
Diluted EPS (Old) (p)	71.2	78.5	89.4	98.7	105.6
PE (x)	13.3	12.1	10.6	9.6	9.0
P/BV (x)	4.8	4.1	3.6	3.3	3.0
DPS (p)	63.5	63.5	66.7	70.0	73.5
Net Div Yield (%)	6.7	6.7	7.0	7.4	7.7
ROE (%)	32.5	35.2	36.1	35.5	34.3

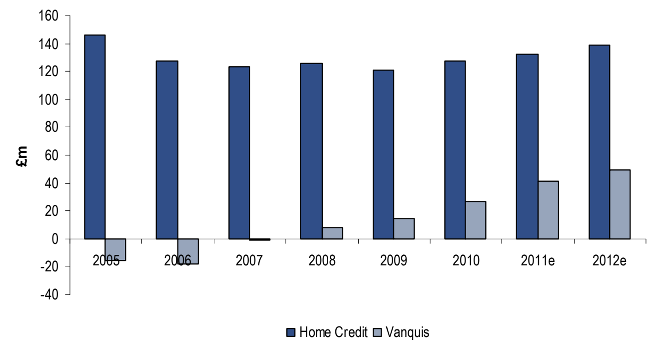
Provident Financial Charts

Figure 175. Provident Financial Divisional Revenues



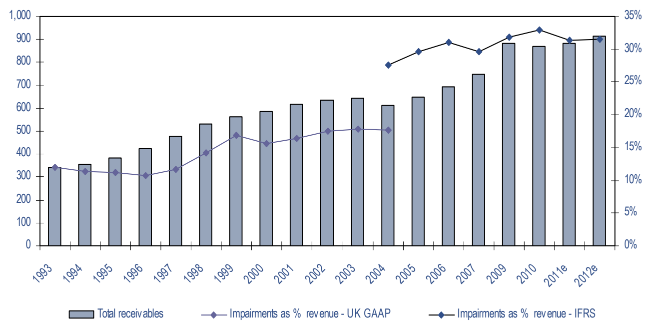
Source: Company & CIRA estimates

Figure 176. Provident Financial Divisional PBT



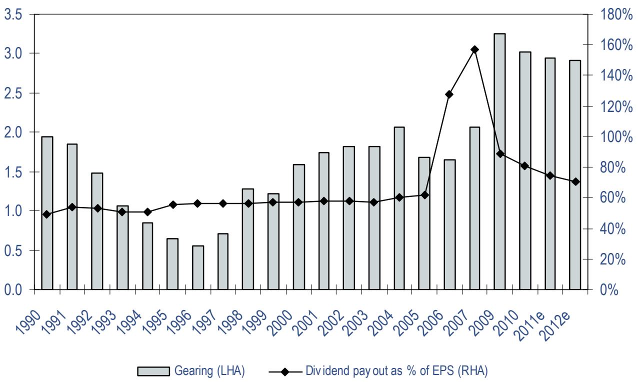
Source: Company & CIRA estimates

Figure 177. Home Credit Receivables vs. Impairmenst



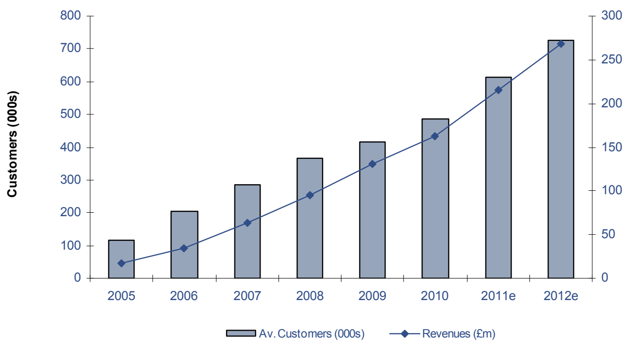
Source: Company reports and CIRA estimates

Figure 178. Provident Financial Gearing vs. Dividend Payout



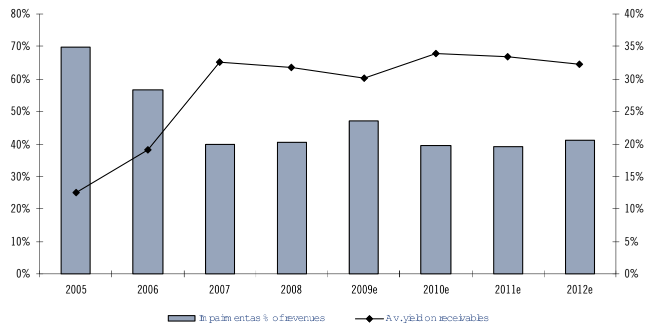
Source: Company reports and CIRA estimates

Figure 179. Vanquis Av. Customers vs. Revenues



Source: Company & CIRA estimates

Figure 180. FY 2011 revenues by product type



Source: Company & CIRA estimates

Income Statement

Figure 181. Provident Financial Income Statement

Year ended 31st December (£m)	2009	2010	2011E	2012E	2013E
Revenues	816	866	912	1,000	1,073
Interest Expense	(54)	(70)	(70)	(84)	(91)
Net Interest Income	**762**	**797**	**842**	**916**	**982**
Interest margin	**93%**	**92%**	**92%**	**92%**	**92%**
Impairment	(278)	(295)	(303)	(342)	(368)
Operating Costs	(147)	(146)	(147)	(161)	(177)
Admin Expenses	(206)	(212)	(229)	(237)	(246)
Exceptional Finance costs	(4)	(3)			
Profit Before Taxation	**125.7**	**142**	**163**	**176**	**191**
PBT margin	**15%**	**16%**	**18%**	**18%**	**18%**
Taxation	(37)	(41)	(43)	(44)	(50)
Profit attributable to equity holders of parent	89	102	120	132	141
Dividend Paid	(84)	(86)	(87)	(95)	(99)
Retained Income	**4**	**16**	**33**	**37**	**42**
Adjusted data					
EBITDA	196	225	249	277	301
EBIT	184	212	233	260	282
Adjusted PBT	130.1	144.5	163	176	191
Net Income	93.7	104.0	119.6	132.1	141.3
	31%	11%	15%	10%	7%
Share Information		11%			
No. Shares in Issue at period end	134.4	135.1	135.1	135.1	135.1
Weighted av. shares in issue	133.1	135.1	135.1	135.1	135.1
Own shares held	(1.9)	(2.8)	(2.8)	(2.8)	(2.8)
Adjusted Basic Shares	131.2	132.3	133.4	133.4	133.4
Dilutive effect of share options	.4	.2	.4	.4	.4
Average diluted shares	131.6	132.5	133.8	133.8	133.8
EPS					
Basic (pence)	67.5	76.7	89.7	99.0	105.9
Diluted (pence)	67.3	76.6	89.4	98.7	105.6
Continuing business Basic (pence)	71.4	78.6	89.7	99.0	105.9
Continuing diluted (pence)	**71.2**	**78.5**	**89.4**	**98.7**	**105.6**
Diluted EPS Growth	1%	10%	14%	10%	7%
Dividend per Share (DPS)					
Dividend per Share (pence)	**63.5**	**63.5**	**66.7**	**70.0**	**73.5**
Dividend Growth	1.1%	0.0%	5.0%	5.0%	5.0%
Dividend cover	1.05	1.18	1.38	1.40	1.42

Source: Company Reports, Citi Investment Research and Analysis

Provident Financial PLC

Company description

Provident is the market leader in UK and Irish home credit, with more than 60% market share (£1.2bn receivables Jun 11). It also runs Vanquis Bank, a sub-prime credit card business (610,000 customers and £362m receivables Jun 11).

Investment strategy

We assign Provident Financial a Sell (3) rating. Provident Financial is a market leader in what remains a significant market opportunity. Further, it has an attractive dividend yield. While the company saw an improved performance in its Home Credit business, it still faces an uncertain economic outlook, with the risk that rising food and energy prices could affect impairments. Further, the company still has £420m of bank facilities to renew in the next 12 months. The company also faces tougher comparatives in Q4 for its Vanquis business.

Valuation

Our primary valuation methodology for Provident Financial is an implied price to book valuation, which using our FY13 ROE of 33%, a WACC of 9.8% and a terminal growth rate of 2% derives an implied price/book multiple of 3.9x. Applying this to our FY12E NAV results in a target price of 920p.

Risks

The following risks could cause the share price to deviate significantly from our target price:

- Provident operates in the 'non-standard' lending market, in which individuals' credit quality and propensity to borrow are likely to suffer from an economic slowdown. Provident's bottom-line earnings are highly sensitive to changes in the impairment charge line.

- Execution risk on new ventures. Longer-term growth is necessarily dependent on Vanquis and other new ventures, as Provident's >60% market share in the maturing UK Home Credit industry cannot drive growth indefinitely. This is a two-way risk: Provident could either under- or outperform our expectations in these new ventures.

- Upside risk to our target is presented if the Consumer Credit customers prove more willing to borrow than our model assumes.

Company Focus

Schroders PLC (SDR.L)

Poor outlook for flows

- Company Update

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Neutral	**2**
Price (14 Dec 11)	£13.17
Target price	£13.10
Expected share price return	-0.5%
Expected dividend yield	3.3%
Expected total return	**2.7%**
Market Cap	£3,569M
	US$5,525M

Price Performance
(RIC: SDR.L, BB: SDR LN)

- **Summary** — We forecast negative EPS momentum 2010-2012E, and struggle to identify differentiating positives for fund flows / performance or profitability at Schroders vs. our wider coverage universe. However, these issues are already adequately reflected in the share price, in our view.
- **Market sensitive** — In common with other traditional asset managers, the outlook for fund performance and fund flows at Schroders is necessarily linked to that of the wider equity market.
- **European retail** — Schroders was hard hit in 2011 by net fund withdrawals by European retail investors. Management anticipates this will continue into 2012, as bank funding requirements will continue to influence distributor behaviour.
- **UK & Asian retail** — Whilst the 2011 experience here was not as bad as seen in Europe, our expectation is that fund flow outlook is still subdued.
- **Performance deterioration** — Fund performance track record has deteriorated, with Schroders citing "low 40%s" of funds ahead of benchmark or peers over 1 year, as at end September 2011. This compares to 81% over 3 years.
- **Revenue margin decline** — We expect Schroders' institutional fund flows to continue to be better than retail. Whilst this bodes well for the longevity of AUM, it does mean that further management fee margin decline is likely.
- **Negative Operational Leverage?** — In past market downturns, Schroders has remained focused on longer term growth and has been reluctant to cut head-count or staff compensation. It has indicated this remains the case, and so scope to respond to possible worsening of 2012 revenue trends looks limited.
- **Strong balance sheet, but higher capital return is unlikely** — Schroders continues to have one of the strongest balance sheets in the sector, with £760m investment capital at end September. However, it is management's intention that the surplus value should continue to rise. Further buybacks of non-voting shares are unlikely, to prevent liquidity of those shares falling to unacceptably low levels.
- **Neutral, 1310p and 1110p target prices** — We rate both the Voting and Non Voting (SDRt.L; £10.25; 2) shares of Schroders Neutral. Even adjusting for surplus capital, the shares trade at a premium to peers at surplus capital adjusted 10.8x 2012E PE.

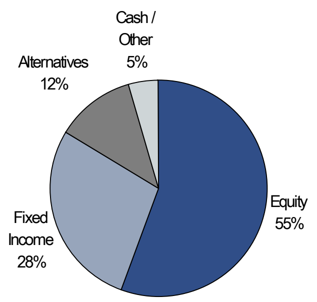
Schroders PLC (GBP)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Net Income (£M)	150.1	307.9	303.8	283.3	329.9
Diluted EPS (p)	53.8	108.3	108.7	101.4	118.0
Diluted EPS (Old) (p)	53.8	108.3	108.7	101.4	118.0
PE (x)	24.5	12.2	12.1	13.0	11.2
P/BV (x)	2.3	2.1	2.0	1.9	1.8
DPS (p)	31.0	37.0	43.0	47.0	52.0
Net Div Yield (%)	2.4	2.8	3.3	3.6	3.9
ROE (%)	5.8	17.9	16.5	14.8	16.6

Schroders

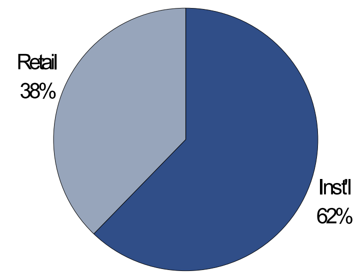
Key Charts

Figure 182. Schroders – AUM end September split by asset class



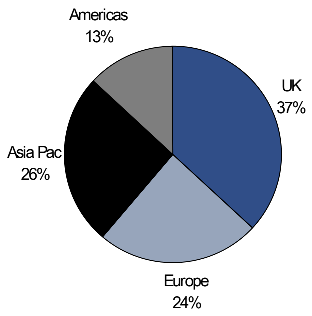
Source: Company Reports and CIRA Estimates

Figure 183. Schroders – AUM end September split by investor type



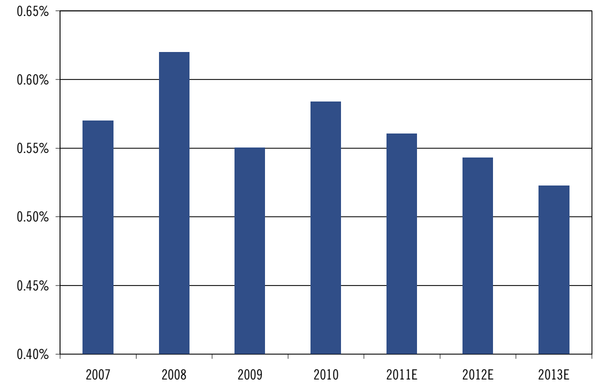
Source: Company Reports and CIRA Estimates

Figure 184. Schroders – end September AUM split by investor location



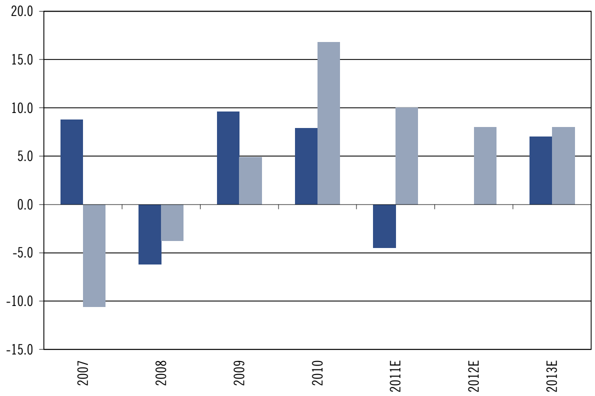
Source: Company Reports and CIRA Estimates

Figure 185. Schroders – Management fee margins 2007-2013E



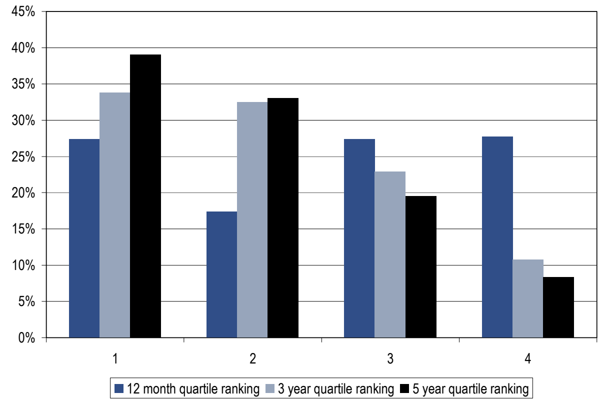
Source: Company Reports, Citi Investment Research and Analysis

Figure 186. Schroders – Intermediary and Institutional fund flows



Source: Company Reports, Citi Investment Research and Analysis

Figure 187. % Funds by performance quartile, over 1, 3 and 5 years



Source: Lipper data

Financial Forecasts

Figure 188. Schroders – Summary Financial History and Forecasts

£ million	**2007**	**2008**	**2009**	**2010**	**2011E**	**2012E**	**2013E**
Opening AUM, £bn:							
Institutional	77.4	73.2	59.6	76.7	106.4	108.8	122.2
Intermediary	42.5	56.2	38.9	59.1	74.1	65.0	68.2
Private banking	8.6	9.7	11.7	12.6	16.2	14.2	15.7
Total	**128.5**	**139.1**	**110.2**	**148.4**	**196.7**	**187.9**	**206.1**
Market appreciation:							
Institutional	5.1	-10.7	12.2	12.9	-7.6	5.4	8.6
Intermediary	4.9	-11.2	10.6	7.1	-4.6	3.2	4.8
Private banking	0.9	1.3	0.4	1.2	-1.9	0.7	1.1
Total	**10.9**	**-20.6**	**23.2**	**21.2**	**-14.2**	**9.4**	**14.4**
Net new funds:							
Institutional	-10.6	-3.8	4.9	16.8	10.0	8.0	8.0
Intermediary	8.8	-6.2	9.6	7.9	-4.5	0.0	7.0
Private banking	0.2	0.4	0.5	2.4	-0.1	0.8	0.8
Total	**-1.6**	**-9.6**	**15.0**	**27.1**	**5.4**	**8.8**	**15.8**
Closing AUM, £bn:							
Institutional	73.2	59.6	76.7	106.4	108.8	122.2	138.8
Intermediary	56.2	38.9	59.1	74.1	65.0	68.2	80.0
Private Banking	9.7	11.7	12.6	16.2	14.2	15.7	17.6
Total AUM, £bn	**139.1**	**110.2**	**148.4**	**196.7**	**187.9**	**206.1**	**236.4**
Increase, %	8%	-21%	35%	33%	-4%	10%	15%
Revenues							
Asset Management fee income			665.2	980.6	1,029.6	1,024.3	1,113.9
of which: Performance Fees	43	50.7	34.5	72.6	35.0	50.0	60.0
Asset Management Revenue	**762.8**	**753.0**	**679.2**	**996.2**	**1,039.6**	**1,039.3**	**1,129.6**
Increase, %	18%	-1%	-10%	47%	4.4%	0.0%	8.7%
Private Banking net fee income			78.6	88.2	98.2	94.7	105.5
Banking Interest Income			19.1	15.1	16.0	17.6	19.4
Private Banking Revenue	**105.9**	**111.3**	**97.7**	**103.3**	**114.2**	**112.3**	**124.8**
Increase, %	11%	5%	-12%	6%	11%	-2%	11%
Group Revenue	40.9	-1.2	6.7	51.8	9.0	10.0	10.0
Consolidation Adjustments	1.7	1.2	5.3	4.5	0.0	0.0	0.0
Total Revenues - AM, PB, PE, Group	**959.4**	**872.9**	**788.9**	**1155.8**	**1162.8**	**1161.6**	**1264.4**
Net revenue margin	0.68%	0.66%	0.58%	0.63%	0.58%	0.56%	0.54%
Costs							
Asset Management	-518.9	-522.9	-500.3	-629.8	-678.7	-705.8	-755.2
Private Banking	-64.6	-71.6	-77.6	-93.2	-90.8	-88.1	-91.6
Group	-23.6	-27.9	-32.1	-46.7	-14.0	-14.0	-14.0
Consolidation Adjustments			-5.1	-4.3	0.0	0.0	0.0
Total Costs	**-611.8**	**-627.4**	**-615.1**	**-774.0**	**-783.5**	**-807.9**	**-860.9**
Increase in total costs, %	12.8%	2.5%	-2.0%	25.8%	1.2%	3.1%	6.6%
Staff Costs	-403.1	-373.4	-390.6	-505.5	-516.9	-541.3	-577.0
Compensation to revenue ratio	46.4%	43.2%	50.3%	46.0%	44.8%	47.0%	46.0%
Other Costs	-200.0	-242.1	-204.7	-251.0	-252.2	-250.8	-267.2
Depreciation	-8.7	-11.9	-19.7	-17.5	-14.4	-15.8	-16.6
Total Operating Profits	**347.6**	**245.5**	**173.8**	**381.8**	**379.3**	**353.7**	**403.6**
Total Net Finance Income	22.6	38.8	10.8	9.6	14.5	14.0	14.0
Total Associate Income	22.3	6.2	15.6	15.5	3.5	10.0	16.5
Total pre-exceptional, pre-tax profits	**392.5**	**290.5**	**200.2**	**406.9**	**397.3**	**377.7**	**434.1**
Increase, %	35%	-14%	-31%	103%	-2%	-5%	15%
Fully diluted pre-exceptional EPS	**103.2**	**75.0**	**53.8**	**108.3**	**108.7**	**101.4**	**118.0**
DPS	**30.0**	**31.0**	**31.0**	**37.0**	**43.0**	**47.0**	**52.0**
Number of voting shares in issue	226.0	226.0	226.0	226.0	226.0	226.0	226.0
Number of non-voting shares in issue	68.5	60.0	62.8	59.5	54.6	54.6	54.6

Source: Company Reports and CIRA Estimates

Schroders PLC

Company description

Schroders is an independent asset management company. The group manages funds for institutional (57%), retail (35%) and private banking clients (8%).

Investment strategy

Schroders is a high-quality asset manager with strong distribution and diverse mix of AUM. We rate it Neutral, reflecting a subdued outlook.

2011 EPS benefits from a positive "averaging effect", due to strong Q4 2010 / Q1 2011 fund flows and market returns. However, H2 2011 has seen poor market returns, management fee margin decline (higher % institutional AUM) and negative intermediary flows (Asian, US and European).

As such, prospects for 2012 EPS growth are poor. The "averaging" effect that benefited 2011 will be detrimental in 2012, magnified by negative operational leverage.

While Schroders is well-placed to benefit from any market rally / return to 'risk-on' sentiment, we do not expect this to be an H1 2012 event.

Valuation

We value Schroders on a sum-of-the-parts approach.

We value the asset management and private banking businesses using DCF (excluding performance fees). We use 11.4% cost of equity and 2.0% long-run growth rate. This cost of equity assumes 1.35 beta, 6.0% equity market risk premium and 3.25% risk-free rate.

We strip out performance fees and value at a P/E of 7x, and we value the group's private equity investment capital at book value. We include other group investment capital at 0.1x book value. This reflects our view that this capital can generate revenue returns of 3% p.a., in line with Schroder's stated target of "LIBOR+". This rate of return is lower than cost of equity of 11.4%, hence the resultant discount to par value. Having valued group revenues in this way, we deduct group costs at a P/E of 10x.

We estimate a fair value for Schroders of £3.56bn, split into 1310p for voting shares, and 1110p for non-voting shares (assuming a 15% non-voting to voting share discount). We use these values to set our target prices.

Risks

We note the following company specific/industry risks which could affect the achievement of our target price:

Schroders is exposed to market risk. It has significant exposure to UK, European & Asian equities in its Assets under Management (and so its share price), somewhat moderated by its strong balance sheet. In addition to this:

Negative risks:

The main negative risk to our earnings forecasts and target price is a decline in the level of global stock markets. This would reduce AUM and revenues - which for a business with significant operational leverage like Schroders, would lead to disproportionate impact on EPS.

Any deterioration in investment performance could hit the group's net fund flows and performance fees.

Increased competitive pressures could dampen revenue margins.

Positive risks:

Stronger equity market appreciation, better fund flows, or higher performance fees.

Redeployment of a significant amount of spare cash in buybacks, or M&A.

Company Focus

- Company Update
- Rating Change
- Target Price Change
- Estimate Change

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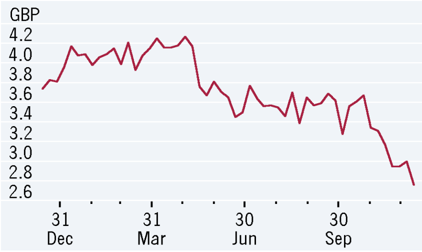
Neutral	**2**
from Buy	
Price (12 Dec 11)	£2.84
Target price	£3.00
from £4.20	
Expected share price return	5.6%
Expected dividend yield	5.5%
Expected total return	**11.2%**
Market Cap	£611M
	US$947M

Price Performance
(RIC: TLPR.L, BB: TLPR LN)



Tullet Prebon (TLPR.L)

Valuation undemanding, near term earnings pressure

- **Downgrade to Neutral** — We think the PE valuation at ~7x 12E is undemanding and we continue to like the company's low risk profile, strong balance sheet, high cash generation and dividend yield. However, near term cyclical pressures on earnings and uncertainty about Tullett's long term success in electronic broking and post trade could make it difficult for the stock to re-rate, in our view. Our TP decline to 300p is driven by a 6-7% decline in FY 12 and FY 13 EPS forecasts and increase in our cost of equity assumption.

- **Reduced 2012 EPS forecasts; 2011 estimates maintained** — We have reduced our 2012 EPS forecasts by ~6%, driven by a reduced revenue growth assumption. We now forecast 2012 revenues to be flat yoy. Previously we were assuming a 2% yoy growth. In 2012, we expect Tullett's underlying revenues to be down 3% yoy. The decline should be offset by the contributions from the Convenceo and Chapdelaine acquisitions, resulting in flat revenues for the year.

- **Forecast a 3% decline in the underlying 2012 revenues —** We have reduced our revenue expectations to reflect our cautious view on particularly Credit and Equity derivative volumes. By product, we expect the underlying interest rate derivatives, fixed income and equity revenues to be down yoy. We forecast Tullett's underlying FX and Energy revenues to be flat yoy.

- **Revenue decline expected to be offset by the recent acquisitions** — We expect the 3% decline in the underlying revenues to be offset by the contributions from Chapdelaine & Co (US municipal bond IDB) and Convenção (Brazilian IDB) acquisitions. We expect Chapdelaine to contribute ~£20m (fixed income) and Convenção ~£10m (~2/3rd in Int Rate Derivatives, ~1/3rd in FX) in 2012.

- **Not much room for cost reduction in the fixed cost base** — Considering the higher regulatory and admin costs associated with running a SEF, we do not expect much room for cost reduction in the fixed cost base of Tullett.

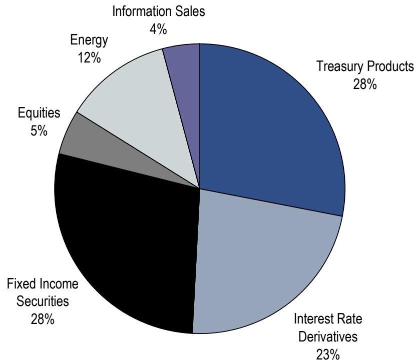
- **Share buyback unlikely in 2012; dividend increase a possibility** — Given the lack of visibility on revenues and capital requirements for SEFs, we think a share buyback is unlikely in 2012. However, we think an increased dividend is a possibility considering Tullett's highly cash generative characteristics. Tullett's dividend payout ratio in 2010 was 34% with the dividend nearly 3x covered. We expect the payout ratio to increase to 40% in 2012 which would still leave the dividend 2.5x covered based on our estimates.

Tullett Prebon (GBP)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Net Income (£M)	105.8	99.8	94.0	88.0	93.0
Diluted EPS (£)	0.49	0.46	0.43	0.41	0.43
Diluted EPS (Old) (£)	0.49	0.46	0.43	0.43	0.46
PE (x)	5.8	6.1	6.6	7.0	6.6
P/BV (x)	2.0	1.5	1.4	1.3	1.3
DPS (£)	0.15	0.16	0.16	0.16	0.17
Net Div Yield (%)	5.3	5.5	5.6	5.7	6.0
ROE (%)	40.1	30.2	21.4	19.3	19.3

Tullett Prebon – Key Charts

Figure 189. 1H 2011 Revenue Breakdown by Product – 1H 2011



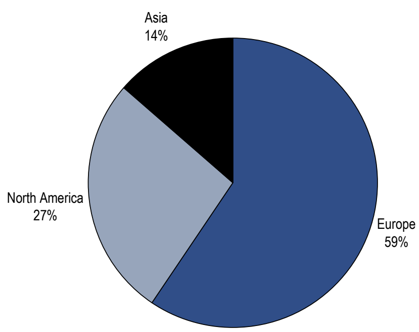
Source: Company data, CIRA

Figure 190. YoY Revenue Growth Rates by Product

	2005	2006	2007	2008	2009	2010	1H 2011
Treasury Products	177	191	204	246	239	248	128
		8%	7%	21%	-3%	4%	2%
Interest Rate Derivatives	153	167	180	221	192	205	104
		9%	8%	23%	-13%	7%	-3%
Fixed Income Securities	197	182	211	282	317	249	127
		-8%	16%	34%	12%	-21%	-4%
Equities	57	41	81	94	74	67	24
		-28%	96%	16%	-21%	-9%	-38%
Energy	52	60	63	82	101	106	54
		16%	5%	29%	23%	5%	-3%
Information Sales	13	14	15	19	25	33	19
		1%	9%	28%	34%	31%	13%
Total Revenues	649	654	754	944	948	909	455
		1%	15%	25%	0%	-4%	-4%

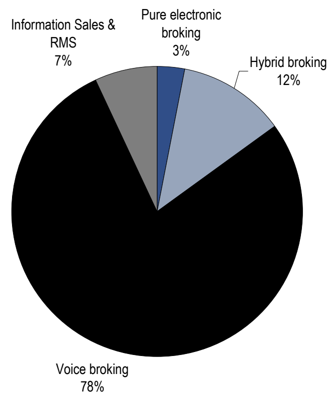
Source: Company data, CIRA

Figure 191. Revenue Breakdown by Region – 1H 2011



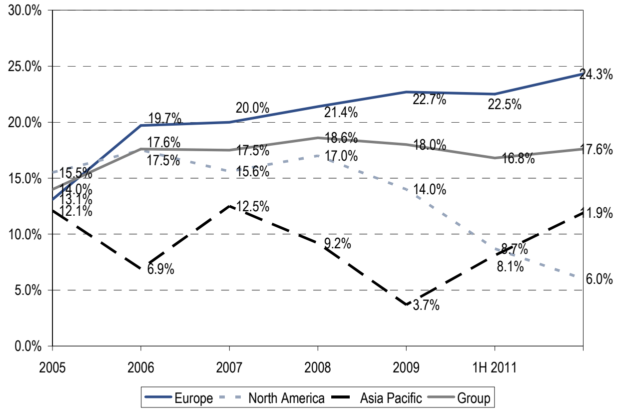
Source: Company data, CIRA

Figure 192. Revenue Breakdown by Business



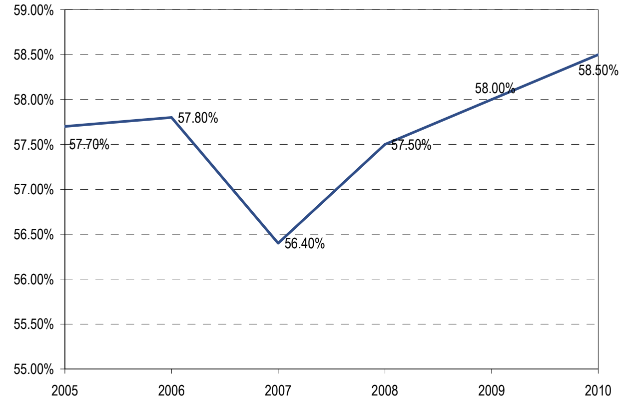
Source: Company data, CIRA

Figure 193. Operating Margin Evolution



Source: Company data, CIRA

Figure 194. Broker employment costs/Broker revenues



Source: Company data, CIRA

Tullett Prebon – Key Financials

Figure 195. Tullett Prebon – Summary P&L

		2006	2007	2008	2009	2010	H1 2011	H2 2011E	2011E	2012E	2013E
Treasury Products		191	204	246	239	248	128	128	256	259	267
	yoy growth		*7%*	*21%*	*-3%*	*4%*	*2%*	*4%*	*3%*	*1%*	*3%*
Interest Rate Derivatives		166.5	180.1	221	192	205	104	105	209	212	216
	yoy growth		*8%*	*23%*	*-13%*	*7%*	*-3%*	*8%*	*2%*	*1%*	*2%*
Fixed Income Securities		181.8	210.8	282	317	249	127	110	237	233	242
	yoy growth		*16%*	*34%*	*12%*	*-21%*	*-4%*	*-6%*	*-5%*	*-2%*	*4%*
Equities		41.3	81	94	74	67	24	35	58	56	58
	yoy growth		*96%*	*16%*	*-21%*	*-9%*	*-38%*	*19%*	*-13%*	*-5%*	*5%*
Energy		60	63.2	82	101	106	54	52	106	106	110
	yoy growth		*5%*	*29%*	*23%*	*5%*	*-3%*	*4%*	*0%*	*0%*	*4%*
Information Sales & Risk Management Services		13.5	14.7	19	25	33	19	19	38	41	44
	yoy growth		*9%*	*28%*	*34%*	*31%*	*13%*	*17%*	*15%*	*8%*	*8%*
Sales Revenues		**654**	**754**	**944**	**948**	**909**	**455**	**449**	**904**	**906**	**938**
	yoy growth		*15%*	*25%*	*0%*	*-4%*	*-4%*	*4%*	*-0.5%*	*0%*	*3%*
Other Operating income		18	14	6	4	8	19	4	24	8	8
Total Revenues		**672**	**768**	**949**	**952**	**917**	**474**	**453**	**927**	**914**	**946**
Total expenses		-557	-636	-794	-781	-764	-394	-387	-780	-774	-797
Operating profits		115	132	156	171	152	80	67	147	140	149
Operating profits ex exceptionals		**115**	**132**	**175**	**171**	**152**	**79**	**67**	**141**	**140**	**149**
	yoy growth		*15%*	*33%*	*-2%*	*-11%*	*-6%*	*-2%*	*-8%*	*0%*	*7%*
Operating margin		**17.6%**	**17.5%**	**18.6%**	**18.0%**	**16.8%**	**17.5%**	**14.8%**	**16.2%**	**15.5%**	**15.9%**
Net financial income		10	-18	-19	-14	-11	-6	-10	-16	-16	-16
Associates		0	1	1	2	2	1	1	2	2	2
PBT		125	115	138	158	143	75	57	126	126	135
PBT ex exceptionals		**125**	**115**	**158**	**158**	**143**	**75**	**57**	**132**	**126**	**135**
	yoy growth		*-8%*	*38%*	*0%*	*-10%*	*-7%*	*-9%*	*-7%*	*-5%*	*7%*
Taxation		-41	-40	-43	-47	-34	-21	-15	-36	-37	-41
Profit after tax		**128**	**74**	**95**	**111**	**109**	**54**	**42**	**90**	**89**	**94**
Minority interests		-1	-1	-1	-1	-1	0	0	-1	-1	-1
Group Net profits		128	73	95	111	109	54	42	90	88	93
Adjusted Net profits		**70**	**71**	**100**	**106**	**100**	**54**	**42**	**94**	**88**	**93**
EBITDA ex exceptionals		123	140	185	181	163	80	67	152	153	163
EBITA ex exceptionals		115	133	176	173	154	80	67	142	142	151
EBIT ex exceptionals		115	133	176	173	154	80	67	142	142	151
Basic EPS		60.6	34.7	44.4	51.8	50.5	24.9	19.3	41.4	40.6	43.0
Diluted EPS ex exceptionals		**32.3**	**33.0**	**46.7**	**48.9**	**46.3**	**24.8**	**19.3**	**43.3**	**40.5**	**42.9**
	yoy growth		*2%*	*41%*	*5%*	*-5%*	*-1%*	*-9%*	*-6%*	*-6%*	*6%*
DPS		11.0	12.0	12.8	15.0	15.8	5.3	10.8	16.0	16.2	17.1

Source: Company data, Citi Investment Research and Analysis

Figure 196. Tullett Prebon – Discounted Cash Flow Valuation

	31/12/2011	31/12/2012	31/12/2013	31/12/2014	31/12/2015	31/12/2016	31/12/2017	31/12/2018	31/12/2019
EBITA	142.4	141.8	151.0	143.5	141.4	137.9	139.3	140.7	142.1
Notional Tax	-40.6	-41.8	-46.0	-47.3	-46.7	-45.5	-46.0	-46.4	-46.9
NOPAT	101.8	100.0	104.9	96.1	94.8	92.4	93.3	94.3	95.2
Depreciation	10.0	11.0	12.0	12.2	12.5	12.7	13.0	13.2	13.5
Capex	-17.0	-18.5	-19.5	-20.1	-20.7	-21.7	-22.8	-23.9	-25.1
FCFF	94.8	92.5	97.4	88.3	86.6	83.4	83.5	83.6	83.6
Discounted FCFF	94.1	78.8	71.3	55.5	46.8	38.7	33.3	28.6	
PV of near term cash flows	447								
Terminal value	186								
Total Value of Firm	633								
Net Debt/(cash)	-19								
Equity Value	652								
No. of Shares	217.1								
Valuation (p)	300								
Target Price (p)	**300**								

Source: Citi Investment Research and Analysis

Tullett Prebon

Company description

Tullett Prebon is the second-largest global interdealer broker by revenues. The company is predominantly a voice broker supported by hybrid electronic trading platforms, operational in Europe, North America and Asia.

Investment strategy

We rate Tullett Neutral. Current valuation looks undemanding and we continue to like the company's low risk profile, strong balance sheet, high cash generation and dividend yield. However, near term cyclical pressures on earnings and uncertainty about Tullett's long term success in electronic broking and post trade will make it difficult for the stock to re-rate, in our view.

Valuation

Our primary valuation methodology for Tullett Prebon is discounted cash flow analysis, supported by relative P/E comparisons. We project cash flows from group operations and adjust for non-cash items such as depreciation. Our model uses the following input assumptions: cost of equity of 16% and a terminal growth rate of 1%. We use cost of equity as Tullett has a net cash position.

In our DCF valuation of Tullett shares, we have made the following changes: i. We increased the equity risk premium used in our cost of equity calculation for all IDBs and exchanges in our coverage, which resulted in Tullett's cost of equity to increase to 16% ii. We lowered the operating margin assumption used in our DCF model to 14% from ~16% iii. We lowered our long term growth assumption to 1% from 2%.

The discounted cash flows to the interdealer broker now total £630m, which after adjusting for expected net cash balance of £19m, and dividing by 217m shares outstanding, produces a target price of 300p.

Risks

We highlight the following risks to achieving our target price.

1. **Volume outlook -** Weaker (better) than expected growth in OTC derivative volumes constitutes a downside (upside) risk to our forecasts.

2. **Concentration risk -** Europe accounts for over 60% of revenues and 80% of group operating profit.

3. **Departure of voice brokers -** If competitors continue to aggressively hire key Tullett staff, this could have a strong impact on revenue generation.

4. **Pricing pressure -** I-banks are struggling to increase profitability, which may put pressure on pricing.

5. **FX risk -** The most significant FX rates for Tullett are UK sterling vs. dollar and euro. Tullett's current policy is not to hedge P&L translation exposure. A 5% weakening (strengthening) in the US dollar and euro against sterling would reduce (increase) net profit by c.£1m.

6. **M&A -** In March 2010, Tullett confirmed that it was in discussions with a potential bidder. In May, Tullett announced that talks had ended. M&A remains a wildcard for Tullett. In the event of another approach by a potential bidder, there would be upside risk to our TP.

If the impact from any of these factors proves to be more negative than we anticipate, the stock will likely have difficulty achieving our financial and price targets. However, if any of these factors proves to have less of an effect than we anticipate, the stock could materially outperform our target.

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European Companies

Company Focus

■ Company Update

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Sell	**3**
Price (14 Dec 11)	€20.58
Target price	€18.00
Expected share price return	-12.5%
Expected dividend yield	7.4%
Expected total return	**-5.1%**
Market Cap	€1,720M
	US$2,242M

Price Performance
(RIC: BME.MC, BB: BME SM)

BME (BME.MC)

Premium to Peers Unwarranted

- **Strong performance in 2011** — BME was among the best performing exchange stocks in 2011. The shares are up ~15% ytd, significantly outperforming the Dow Jones Global Exchanges Index, which is down 18% ytd. We think BME shares benefited from a number of factors in 2011, including the global exchange consolidation newsflow in 1H 2011, strong balance sheet with a net cash position equal to ~20% market cap, a high dividend yield of 8% and most importantly BME's continued monopoly position in Spanish cash equities trading.

- **Will BME ever lose its monopoly position in cash equities trading?** — We think the answer is probably yes, however the timing of it is not as straightforward as we thought it would be at the beginning of 2011. Despite the change in the post trade regulations in Spain and pricing three-month price promotion by Chi-X launched in October, BME has continued to maintain its 98% market share in IBEX 35 trading. MTFs have argued that despite the streamlining of the clearing & settlement process in Spain by Title V reforms, barriers still remain due to operational complexities associated with the settlement of BME trades. Title VI which are expected to be launched in 2012 are expected to make it a truly level playing field for BME and the MTFs.

- **Market share losses and price declines forecasted in 2013** — Given the slow progress in MTFs gaining market share in Spanish cash equities trading, we expect BME to maintain its monopoly position for the most part of 2012. We expect only a 3% market share loss for BME in 2012. We expect the impact of increased competition to take effect in 2013. We forecast BME's market share to drop to 85% and cash equities pricing to decline by 10% by the end of 2013.

- **At a premium to European exchanges, Reiterate Sell** — BME shares currently trade on a PE of 11x 2012E based on both Citi and consensus forecasts, at a premium to an average European exchange at 10x 12E. Our target price at €18 implies a P/E multiple of 10x 2012E for BME. Considering our cautious view on trading volumes for European exchanges in 2012 and the medium term potential threat of increased competition in Spanish cash equities trading, we think a premium to peers is unwarranted. We reiterate our Sell recommendation. We are not making any changes to our estimates and/or TP in this report. We note that we had previously increased our cost of equity assumption in valuing BME shares consistent with the other exchanges/IDBs in our coverage.

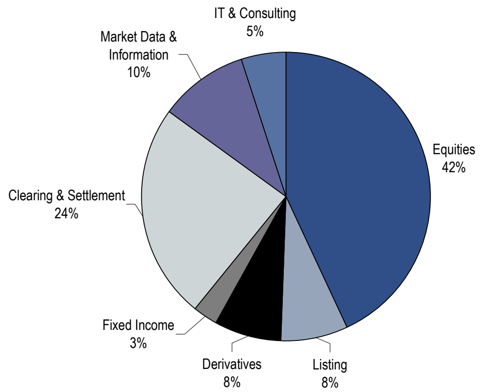
- **Next newsflow** — Monthly volume reports, FY 11 results due February 2012.

BME (EUR)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Net Income (€M)	136.5	154.2	151.0	149.2	128.6
Diluted EPS (€)	1.63	1.84	1.81	1.78	1.54
Diluted EPS (Old) (€)	1.63	1.84	1.81	1.78	1.54
PE (x)	12.6	11.2	11.4	11.5	13.4
P/BV (x)	3.8	3.8	3.7	3.7	3.6
DPS (€)	1.97	1.97	1.97	1.97	1.37
Net Div Yield (%)	9.6	9.6	9.6	9.6	6.7
ROE (%)	32.6	34.2	33.1	32.1	27.2

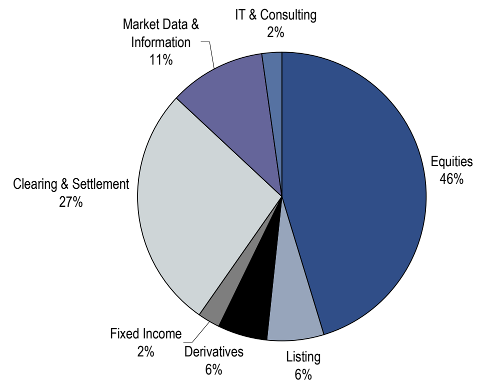
BME – Key Charts

Figure 197. 9m 11 Sales Revenue Breakdown



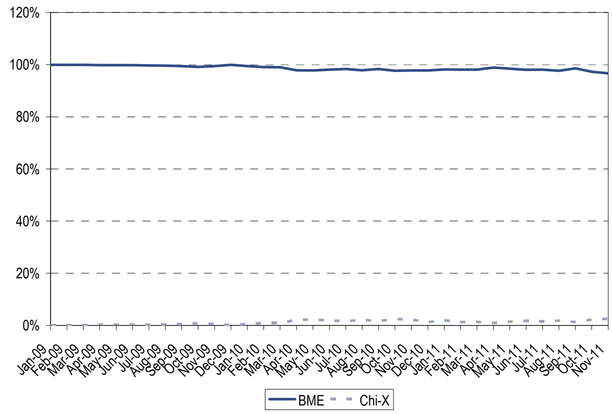
Source: Company data, CIRA

Figure 198. 9m 11 EBITA Breakdown



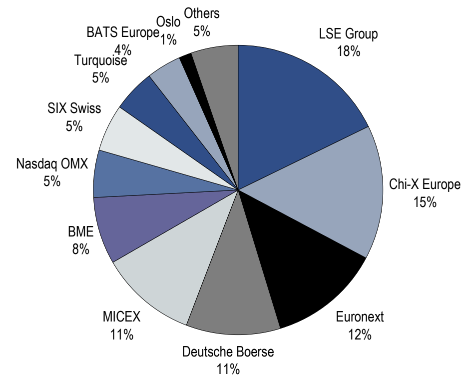
Source: Company data, CIRA

Figure 199. IBEX 35 Market Share



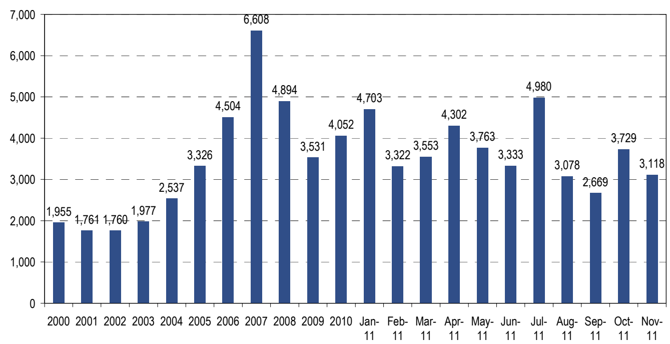
Source: BATS Europe, CIRA

Figure 200. Breakdown of European Cash Equities Volumes – Oct 11



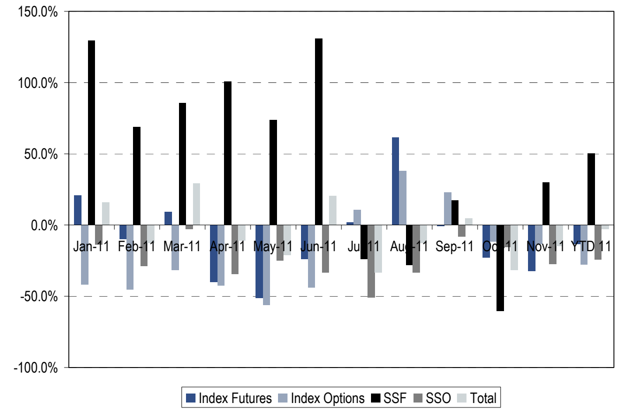
Source: Thomson Reuters, CIRA

Figure 201. Cash Equities Volumes



Source: Company data, CIRA

Figure 202. Derivatives Volumes



Source: Company data, CIRA

BME – Key Financials

Figure 203. BME – Summary P&L

	2007	2008	2009	2010A	2011E	2012E	2013E	Growth 2010
Cash Trading	173.9	150.9	124.1	138.0	134.4	125.5	104.3	11%
Listing Fees	30.6	28.4	26.0	22.9	23.3	24.2	25.0	-12%
Derivatives Trading	28.6	28.8	25.9	26.3	22.2	22.1	22.1	2%
Fixed Income	6.3	6.6	6.7	7.5	8.1	8.5	9.0	13%
Clearing & Settlement	92.3	83.0	67.9	75.3	76.5	80.2	69.3	11%
Market Data & Information	33.6	38.1	33.1	31.2	32.4	34.0	35.7	-6%
IT & Consulting services	14.7	16.4	16.9	14.4	17.0	18.0	19.1	-15%
Consolidation adjustments	-3.1	-3.2	-3.5	-1.5	-1.2	-1.3	-1.3	-56%
Sales Revenues	**376.9**	**349.1**	**297.0**	**314.0**	**312.7**	**311.3**	**283.1**	**6%**
Other income	3.7	2.3	17.2	9.3	3.0	3.0	3.0	
Capitalisation of development expenses	2.5	1.5	2.4	2.9	1.4	1.5	1.5	
Total revenues	**383.1**	**352.9**	**316.7**	**326.2**	**317.2**	**315.8**	**287.6**	**3%**
Operating Costs								
Staff Costs	-58.2	-60.7	-65.9	-64.3	-62.6	-63.5	-64.2	-2%
Other Expenses	-40.0	-42.2	-40.9	-38.9	-36.9	-37.4	-37.9	-5%
Total Costs	**-98.1**	**-102.9**	**-106.9**	**-103.2**	**-99.5**	**-100.9**	**-102.0**	**-3%**
Operating Income (EBITDA)	**285.0**	**250.0**	**209.8**	**223.1**	**217.7**	**214.9**	**185.6**	**6%**
Underlying operating income (EBITDA) ex exceptionals285.0250.0199.6				**223.1**	**217.7**	**214.9**	**185.6**	**12%**
Depreciation	-10.3	-7.8	-7.4	-8.0	-7.8	-8.8	-9.7	
Financial Result	18.9	24.4	5.0	3.0	4.5	7.1	7.8	
Other								
PBT pre Exceptionals & Amortisation	**293.2**	**259.9**	**194.1**	**217.1**	**214.1**	**213.2**	**183.8**	**12%**
PBT	**293.2**	**266.6**	**206.9**	**217.1**	**214.1**	**213.2**	**183.8**	**5%**
Income Tax	-92.1	-75.9	-56.9	-62.9	-63.1	-63.9	-55.1	
Tax Rate	-31%	-28%	-27%	-29%	-29%	-30%	-30%	
Net profit	**201.1**	**190.8**	**150.1**	**154.2**	**151.1**	**149.2**	**128.6**	**3%**
Net Profit pre-exceptionals and amortisation	**201.1**	**185.9**	**136.5**	**154.2**	**151.1**	**149.2**	**128.6**	**13%**
Diluted EPS, pre-exceptional/amortization	**2.41**	**2.22**	**1.63**	**1.84**	**1.81**	**1.78**	**1.54**	**13%**
Diluted EPS	2.41	2.28	1.79	1.84	1.81	1.78	1.54	
Ordinary DPS	1.97	1.97	1.60	1.60	1.61	1.59	1.37	0%
EBIT pre Exceptionals	274.6	235.5	189.6	215.0	209.9	206.1	175.9	13%
EBITA pre Exceptionals	274.6	235.5	189.6	215.0	209.9	206.1	175.9	13%
EBITDA pre Exceptionals	**285.0**	**243.3**	**197.1**	**223.1**	**217.7**	**214.9**	**185.6**	**13%**

Source: Company data, CIRA

BME

Company description

Bolsas y Mercados Espanoles (BME) is the Spanish stock exchange operator formed by the merger of the Madrid, Barcelona, Bilbao and Valencia stock exchanges. The exchange was listed in July 2006. BME operates in equities trading, clearing and settlement, market data & information, derivatives, listings, information technology (IT) & consulting and fixed income businesses.

Investment strategy

We rate BME Sell. We believe BME is the only major European exchange vulnerable to a revenue decline in 2012. Its two biggest revenue and profit contributing businesses - Equities and Clearing & Settlement - are expected to face structural challenges in 2012 and 2013 due to new regulation. We forecast declining revenues for both businesses, resulting in falling margin and EPS projections. This puts BME in a weaker position than its peers.

Valuation

Our primary valuation methodology for BME is discounted cash flow analysis, supported by relative P/E comparisons. Our input assumptions are a cost of equity of ~13% and long-term growth rate of 1%. BME has no debt but a 2010 year-end net cash balance of €320m. The present value of forecast future cash flows to the firm total €1.18bn, to which we add the group's net cash and divide by the diluted number of shares estimated at year-end. This produces a target price of €18.

Risks

We highlight the following risks to achieving our target price.

1. **Volume outlook -** Better (weaker) than expected volumes constitute an upside (downside) risk to our revenue forecasts. BME has high operating leverage so in the event of better (weaker) than expected volumes, the impact could be a significant positive (negative) to our EPS forecasts.

2. **Spanish macroeconomic conditions -** Better (weaker) than expected performance in Spanish macroeconomic indicators constitute an upside (downside) risk to our forecasts.

3. **Competition in cash equities trading -** We expect competition to intensify in 2012 and 2013. We forecast significant market share losses and pricing pressure for BME in 2012. Later (sooner) than expected competitive pressures constitute a upside (downside) risk to our forecasts.

4. **Overhang risk -** BME's biggest shareholders are BBVA, Bank of Spain, Criteria Caixacorp and Caja Madrid. While we acknowledge that Spanish banks consider the exchange a strategic asset, they are profit-maximising entities and could consider selling stakes in non-core assets at a time when funding pressure for Spanish banks is particularly high.

5. **M&A risk-** We attach a low probability to a potential BME takeover. However, any speculation and/or realisation of a takeover would constitute an upside risk to our target price.

Company Focus

■ Company Update

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Neutral	**2**
Price (14 Dec 11)	€2.72
Target price	-
Expected share price return	-
Expected dividend yield	-
Expected total return	**-**
Market Cap	€178M US$232M

Price Performance
(RIC: EXCr.AT, BB: EXAE GA)

Hellenic Exchange Holding SA (EXCr.AT)

When Net Cash at 65% of the Market Cap is Not Enough

- **Weak Outlook –** Greece is now down 88% since October '07, or 77% since the start of its sovereign crisis in October 09. The capitulation of the Greek equities market since the beginning of 2H (down another 45%) means that the daily volumes now are at €40-€60m - half the level of 1H – despite high volumes in terms of number of shares. Total Greek market capitalisation now is at €28bn – with Greek banks at c€4bn. This compares with an economy of €230bn (FY2010) – and a 2007 total market capitalisation level of €183bn (year's average).
- **In Early October We Cut Big in 2012 EPS Forecasts –** By 10% for 2011 and c70% for 2012E. The cut in 2011 would have been higher (to 33%) if it wasn't for c€5m of one-off tax-related income recorded in 1H. The cut in 2012 came from our new forecast of daily average volumes of €50m – but the latest trend (if we exclude MSCO rebalancing flow days) is for even lower at €30-40m – suggesting that there could be further downside risk to our forecasts. We also reduced our listing fees/derivatives assumptions and income from members etc – also due to the likely consolidation of banks and brokers. At the same time we still expect the reductions on costs to continue and an c8% decline in cash costs (excluding capital market contributions) by 2012.
- **Net Cash at €1.8 per share –** (Sep 2011) is now at c65% of the market cap. The big issue is at what level a likely Greek default would further hit volumes and what is the break-even profit and cash level for Helex. With fixed costs at €20-21m – we believe such a level can be achieved even on €25-35m of daily volumes. However, there are likely to be more pressures from members and companies for a reduction in the fixed-fees – which could bring further earnings pressures.
- **Increased Risks of Euro Exit:** Our economists now see a 25-30% chance that Greece exits the Euro, with an accompanying 4.9% GDP contraction in '12, and that beyond the current 50% PSI arrangement there will be further restructuring (>2013). Despite the market falling 77% since the crisis, we see little optimism for Greek equities into 2012.
- **Neutral Rating Maintained –** Helex is probably one of the safer exposures to any recovery in the Greek capital markets, but all of its profits come from Greece, where we believe there are significant macro risks & elevated risks of an orderly default. While we don't believe that Greece will leave the Euro, such elevated market concerns could also affect the short-term performance of the shares which appear to attribute little value to the business beyond the net cash value.

Hellenic Exchange Holding SA (EUR)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Net Income (€M)	29.6	21.3	21.1	7.6	9.4
Diluted EPS (€)	0.45	0.33	0.32	0.12	0.14
Diluted EPS (Old) (€)	0.45	0.33	0.32	0.12	0.14
PE (x)	6.0	8.4	8.4	23.4	18.8
P/BV (x)	1.4	1.3	1.3	1.3	1.2
DPS (€)	0.35	0.25	0.23	0.08	0.10
Net Div Yield (%)	12.9	9.2	8.5	3.1	3.8
ROE (%)	23.7	16.4	15.6	5.5	6.7

Hellenic Exchanges – Financial Forecasts

Figure 204. Helex Quarterly Profit & Loss Account (Euros in Millions)

	FY11E	2H11E	6M11	2Q11	1Q11	FY10	4Q10	3Q10	2Q10	1Q10	FY09
Turnover (Including Non-Recurring)	**48.5**	**19.1**	**29.4**	**13.4**	**16.0**	**62.2**	**15.1**	**11.6**	**16.4**	**19.1**	**78.4**
% growth y-o-y	*-22.1%*	*-28.6%*	*-17.2%*	*-18.3%*	*-16.2%*	*-20.7%*	*-40.3%*	*-45.1%*	*-14.7%*	*49.4%*	*-27.7%*
Total cash costs	**(22.1)**	**(10.9)**	**(11.2)**	**(5.6)**	**(5.6)**	**(25.0)**	**(6.3)**	**(6.1)**	**(6.3)**	**(6.3)**	**(27.4)**
% growth y-o-y	*-11.4%*	*-11.8%*	*-11.1%*	*-11.1%*	*6.1%*	*-8.8%*	*-19.3%*	*-6.0%*	*-8.7%*	*-32.0%*	*-14.4%*
EBITDA	**26.3**	**8.1**	**18.2**	**7.8**	**10.4**	**37.2**	**8.8**	**5.5**	**10.1**	**12.8**	**51.0**
% growth y-o-y	*-29.3%*	*-43.2%*	*-20.5%*	*-22.8%*	*-18.8%*	*-27.1%*	*-49.6%*	*-62.4%*	*-18.0%*	*94.4%*	*-33.2%*
EBITDA margin	*54.3%*	*42.6%*	*61.9%*	*58.2%*	*65.0%*	*59.8%*	*58.3%*	*47.3%*	*61.6%*	*67.0%*	*65.1%*
Depreciation & Amortisation	(2.0)	(1.1)	(0.9)	(0.4)	(0.5)	(2.5)	(0.6)	(0.5)	(0.7)	(0.7)	(2.6)
Operating profit	**24.3**	**7.0**	**17.3**	**7.4**	**9.9**	**34.7**	**8.2**	**5.0**	**9.4**	**12.1**	**48.4**
% growth y-o-y	*-29.9%*	*-46.8%*	*-19.5%*	*-21.3%*	*-18.2%*	*-28.3%*	*-50.9%*	*-64.6%*	*-18.5%*	*99.6%*	*-34.3%*
Operating margin	*50.2%*	(0.1)	*58.8%*	*55.2%*	*61.9%*	*55.8%*	*54.6%*	*42.7%*	*57.3%*	*63.4%*	*61.7%*
Net interest result	4.0	1.4	2.6	1.3	1.3	4.4	1.3	0.8	1.5	0.8	6.7
PBT	**28.3**	**8.4**	**19.9**	**8.7**	**11.2**	**39.1**	**9.5**	**5.8**	**10.9**	**12.9**	**55.1**
% growth y-o-y	*-27.6%*	*-44.8%*	*-16.5%*	*-20.5%*	*-53.0%*	*-29.0%*	*-46.9%*	*-60.9%*	*-24.7%*	*-42.7%*	*-38.1%*
Tax	(7.2)	(4.1)	(3.1)	(1.1)	(2.0)	(17.8)	(2.5)	(1.5)	(10.6)	(3.2)	(25.6)
Rate %	*-25.4%*	NM	*-19.0%*	*-12.6%*	*-17.9%*	*-45.5%*	*-26.2%*	*-25.5%*	*-96.9%*	*-24.8%*	*-46.5%*
PAT after minorities	**21.1**	**4.3**	**16.8**	**7.6**	**9.2**	**21.3**	**7.0**	**4.3**	**0.3**	**9.7**	**29.5**
% growth y-o-y	*-0.8%*	*-61.6%*	*67.3%*	*2109.3%*	*-5.2%*	*-27.8%*	*341.2%*	*-61.0%*	*-96.9%*	*11.2%*	*-54.7%*
Market Data											
Daily volume of transactions (€m)	**84**	**60**	**108**	**87**	**128**	**139**	**99**	**97**	**163**	**203**	**202**
y-o-y growth	*-39.7%*	*-57.0%*	*-41.2%*	*-46.7%*	*-36.8%*	*-31.1%*	*-62.4%*	*-51.4%*	*-28.8%*	*75.2%*	*-35.7%*
Number of Trading Days	*250*	*128*	*122*	*62*	*61*	*252*	*64*	*66*	*62*	*60*	*248*
y-o-y growth	*-0.8%*	*-49.2%*	*0.0%*	*0.0%*	*1.7%*	*1.6%*	*1.6%*	*0.0%*	*5.1%*	*0.0%*	
Market cap - avg in quarter / year	45	34	56	54	54	65	60	61	65	78	82
y-o-y growth	*-30.8%*	*-47.7%*	*-21.4%*	*-16.8%*	*-30.3%*	*-20.4%*	*-35.9%*	*-31.7%*	*-17.9%*	*21.0%*	*-35.9%*
Derivatives - Avg Contracts	45,993	40,500	51,558	43,801	59,442	43,803	38,985	39,528	45,998	51,269	42,063
y-o-y growth	*5.0%*	*-7.5%*	*5.3%*	*-4.8%*	*15.9%*	*4.1%*	*-17.8%*	*21.4%*	*-14.9%*	*46.1%*	*4.8%*
Breakdown of Sales (Recurring) **	**OLD**		**NEW**	**NEW**	**NEW**	**OLD**	**OLD**	**OLD**	**NEW**	**NEW**	**OLD**
Cash Market - Trading	5.8		3.5	1.5	2.0	10.1	1.6	1.6	3.2	3.7	15.2
Cash Market - Clearing & Settlement	10.0		6.6	2.7	3.9	16.7	3.1	2.3	5.1	6.2	23.9
Derivatives	7.2		3.6	1.7	1.9	9.2	1.9	2.5	2.4	2.5	8.4
Listed companies	8.3		4.3	1.7	2.6	10.3	4.9	1.1	1.4	2.9	11.5
OTC Transactions	1.5		0.7	0.3	0.4	1.7	0.3	0.3	0.6	0.5	2.0
Data vendors & IT Services	6.0		3.3	1.7	1.6	6.5	2.0	1.3	1.7	1.5	7.1
Other	9.4		2.3	1.1	1.2	6.3	0.9	1.6	2.0	1.8	8.5
Auxilliary Fund	0.0					0.5	0.0	0.5			0.7
Cyprus Trading Platform	0.3					0.9	0.5	0.4			1.2
Total	**48.5**		**24.3**	**10.7**	**13.6**	**62.2**	**15.1**	**11.6**	**16.4**	**19.1**	**78.4**

Source: Company Data and Citi Investment Research and Analysis ** Helex has changed disclosure for revenue categories this year – but a full audit trail to the old disclosure is not yet available – hence our forecasts being based on old disclosures. The end forecasts would be the same under Old or New disclosure

Hellenic Exchange Holding SA

Company description

Hellenic Exchanges SA (Helex) is the holding company that owns the Athens stock and derivatives exchanges and the clearing house. In 2010 about 45% of group sales came from the trading and clearing of transactions in the stock exchange (value based), 16% from the derivatives market, 15% from listed companies, and the residual from vendors, supply of systems, etc. The company has high operating leverage, with less than 20% of its cost base directly linked to sales.

Investment strategy

We rate the shares Neutral. With its Euro1.8 per share of net cash and a low break-even profitability level for daily activity (<€30m), we see Helex as among the first stocks to benefit from any return to Greek risk among investors. However, current levels of activity in the market are close to that breakeven level for Helex. Furthermore, all the profits come from Greece, where we believe there are significant macro risks and elevated risks of an orderly default. This combined with market concerns that Greece will leave the Euro (we believe this will not be the case), the shares could continue to attribute little value to the business beyond the net cash value.

Valuation

This company has a Neutral rating. We have not assigned a target price and therefore no valuation methodology is applicable.

Risks

We see the following key company- and industry-specific risks that could impact Hellenic Exchanges:

Helex has an easy to understand but difficult to forecast business model, due to the heavy dependence on traded volumes and the market capitalisation of the stock exchange. Such risk is now even higher considering the significant Greek macroeconomic issues and risks of a likely default or exit from the Euro (we believe this will not happen).

Since June 2003, Helex is no longer a monopoly by law - its pricing power and high fee structure (relative to European peers) could be eroded if competition emerges.

A current requirement that all clearing must be done through Helex's clearing house is also likely to be abolished in the long term.

If we compare total trading and clearing fees to the total market volumes of the exchanges served, Helex is significantly more expensive than the integrated European exchanges. There is therefore a risk of competitive and regulatory forces putting more pricing pressure on Helex.

Company Focus

GPW (GPW.WA)
Regional Financial Hub

- **Company Update**

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Neutral	**2**
Price (12 Dec 11)	ZL38.89
Target price	ZL44.50
Expected share price return	14.4%
Expected dividend yield	6.9%
Expected total return	**21.3%**
Market Cap	ZL1,632M
	US$465M

Price Performance
(RIC: GPW.WA, BB: GPW PW)

- **Neutral** — We rate GPW Neutral. Our Zl 44.50 target price is based on comparative trading multiple valuation approach (P/E) (Zl 44.5 per share), cross-checked against a discounted cash flow valuation (Zl 41.0 per share). Expected dividend yield in 2012 is 6.2%.

- **Regional Financial Hub** — With 37 foreign companies listed on the Warsaw Stock Exchange with a market capitalization of Zl 198bn (Zl 129bn excluding UniCredit) GPW is successfully establishing itself as a regional financial hub. The global trend of consolidation may be beneficial for GPW – when large exchanges become even bigger, Warsaw may appear as the best market for CEE companies that are perceived as too small for main global markets.

- **TGE Acquisition** —GPW is in the process of purchasing an 80.33% stake in Towarowa Gielda Energii (TGE), an energy trading company, for Zl 179m. In our opinion the TGE acquisition offers growth option but at a high price as it increases the risk profile of GPW – it will be funded by bond issuance and thus will appear as debt in the balance sheet, and it exposes the company to risks related to regulation of the power market.

- **Margin Pressure Looms** — Equity trading volumes on the Polish bourse are not of a magnitude that should attract serious competition from Multilateral Trading Facilities (MTFs). This has allowed GPW to keep pricing stable for three years. However, pricing pressure is inevitable, in our view, and we assume a reduction in cash equity revenue from 2.5bp of average turnover in 2010 to 2.3bp in 2012, 1.9bp in 2013 and 1.5bp in 2014 in our earnings model.

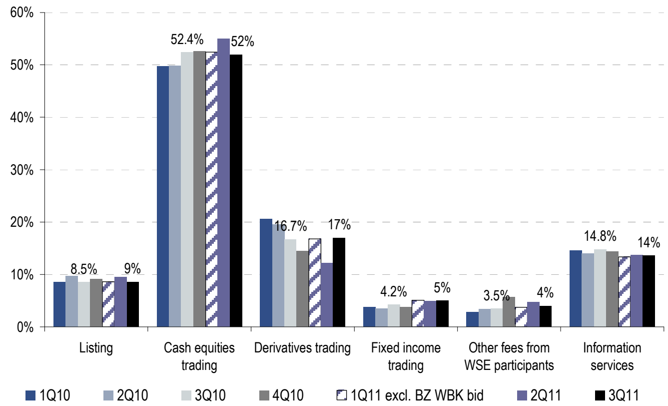
- **3Q11 results and outlook for 4Q11** — GPW reported a 3Q11 net profit of Zl 38.1m (+72% yoy, +16% qoq, +22% vs. CIRA estimates and +13% vs. consensus as reported by PAP). Despite higher than expected revenues EBIT came in below expectations due to Zl 2.6 in other operating expenses (driven by provisioning on unpaid receivables) but net profit was supported by strong net financial gains (Zl 7.8m vs. Zl 2.0m in 2Q11) driven by FX gains. October and November average cash equity turnover (-12% vs. monthly average in 2Q11) and derivatives turnover (-20% vs. monthly average in 2Q11) as well as seasonally higher expenses expectations drive us to expect a material decline qoq in 4Q11 net profit.

GPW (PLN)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Net Income (ZLM)	100.8	94.7	131.8	134.9	129.9
Diluted EPS (ZL)	2.40	2.26	3.14	3.21	3.10
Diluted EPS (Old) (ZL)	2.40	2.26	3.14	3.21	3.10
PE (x)	16.2	17.2	12.4	12.1	12.6
P/BV (x)	3.1	3.1	4.2	4.0	3.8
DPS (ZL)	2.16	3.21	2.67	2.67	2.63
Net Div Yield (%)	5.6	8.3	6.9	6.9	6.8
ROE (%)	13.9	18.1	29.0	34.0	31.1

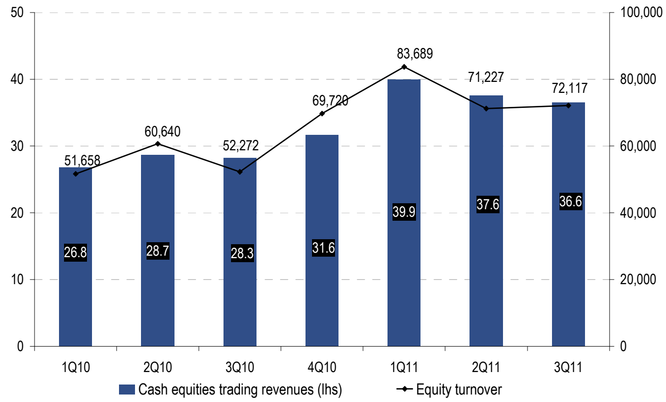
Key Charts

Figure 205. GPW – Structure of Revenues, 1Q10-3Q11 (%)



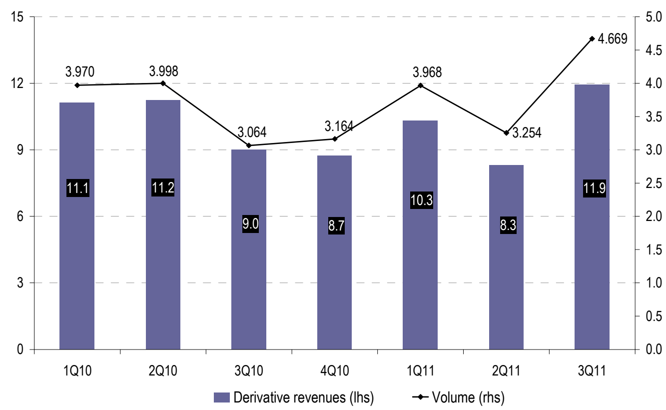
Source: GPW, Citi Investment Research and Analysis

Figure 206. GPW – Cash Equity Trading Revenues (Zl in million) and Equity turnover (Zl in million), 1Q10-3Q11



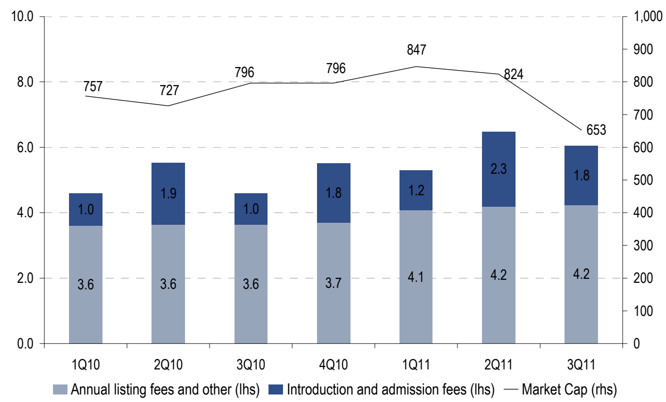
Source: GPW, Citi Investment Research and Analysis

Figure 207. GPW – Derivative Trading Revenues (Zl in million) and Volume of derivative turnover, 1Q10-3Q11



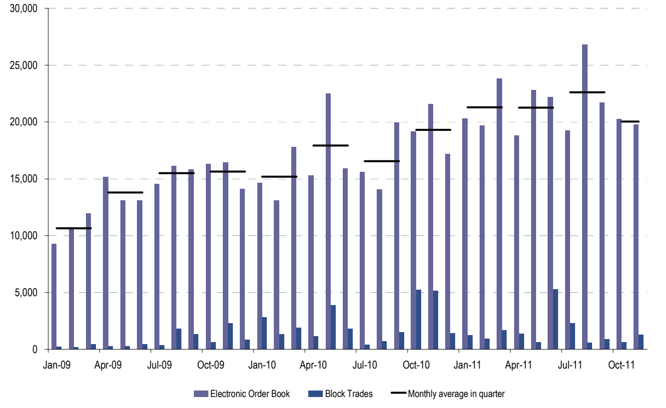
Source: GPW, Citi Investment Research and Analysis

Figure 208. GPW – Listing fees (Zl in million) and Market Capitalization (Zl in bn), 1Q10-2Q11



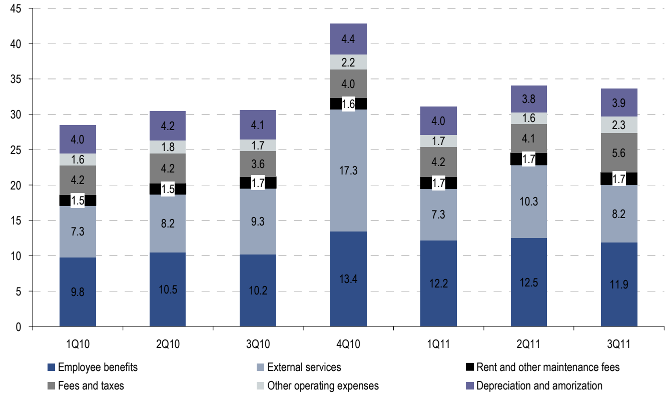
Source: GPW, Citi Investment Research and Analysis

Figure 209. GPW - Monthly EOB and Block Trade Turnover, Jan 09 – Nov 11 (Polish Zloty in million)



Source: GPW, Citi Investment Research and Analysis

Figure 210. GPW – Costs, 1Q10-3Q11 (Polish Zloty in million)



Source: GPW, Citi Investment Research and Analysis

Financial Forecasts

Figure 211. GPW – Summary Financial History and Forecasts (Polish Zloty in million)

								YoY %				
Income Statement	**2008**	**2009**	**2010**	**2011E**	**2012E**	**2013E**	**2014E**	**2008**	**2009**	**2010**	**2011E**	**2012E**
Revenues	**184.7**	**199.5**	**225.5**	**275.4**	**293.9**	**295.9**	**302.9**	**-19**	**8**	**13**	**22**	**7**
Listing	20.6	14.9	20.2	23.2	22.9	24.7	26.5	-14	-28	36	15	-1
Cash equities trading	90.5	100.1	115.4	146.9	145.6	131.8	122.8	-35	11	15	27	-1
Derivatives trading	35.0	37.8	40.1	42.4	52.6	58.7	65.4	17	8	6	6	24
Fixed income trading	0.3	6.7	8.6	14.3	19.4	23.6	26.0	42	1,995	27	66	36
Other fees	7.8	7.1	8.7	12.1	13.3	13.6	14.4	4	-10	22	40	10
Information services	30.5	32.9	32.6	36.5	40.1	43.4	47.7	10	8	-1	12	10
Operating expenses, out of that	**-108.7**	**-118.6**	**-132.3**	**-141.3**	**-153.1**	**-160.0**	**-167.2**	**32**	**9**	**12**	**7**	**8**
staff costs	-33.3	-40.8	-43.9	-52.1	-54.2	-56.0	-60.1	18	23	8	19	4
general costs	-64.4	-63.3	-71.7	-73.4	-75.3	-77.3	-79.5	56	-2	13	2	3
depreciation	-11.0	-14.5	-16.7	-15.8	-23.5	-26.7	-27.5	-11	32	15	-5	49
Other income	0.5	2.5	1.1	1.9	2.4	2.4	2.4	-16	398	-54	67	26
Other expenses	-5.4	-3.9	-2.7	-2.3	-3.2	-3.2	-3.2	493	-29	-31	-15	40
EBIT	**71.1**	**79.5**	**91.8**	**133.7**	**140.0**	**135.1**	**134.9**	**-51**	**12**	**15**	**46**	**5**
Financial income	29.6	32.8	10.3	10.8	10.5	9.3	6.1	34	11	-69	4	-2
Financial expenses	0.0	-0.6	-0.9	-0.1	0.0	0.0	0.0	975	1,247	53	NA	NA
Share of profit associates	9.7	11.1	14.2	16.9	16.0	16.0	16.0	-62	14	28	19	-5
Profit before income tax	110.4	122.8	115.3	161.3	166.5	160.4	157.1	-43	11	-6	40	3
Income tax	-20.7	-22.1	-20.5	-29.4	-31.6	-30.5	-29.8	-38	7	-7	43	8
Minorities	0.0	0.1	-0.1	0.0	0.0	0.0	0.0	NA	NA	-348	NA	NA
Net Profit	**89.7**	**100.8**	**94.7**	**131.8**	**134.9**	**129.9**	**127.2**	**-44**	**12**	**-6**	**39**	**2**
Dividend	0.0	91	134.7	112.1	112.0	110.4	108.1	NA	NA	48%	-17	0
Number of shares - eop	42.0	42.0	42.0	42.0	42.0	42.0	42.0	0	0	0	0	0
Balance Sheet												
Non-Current Assets	**505.3**	**390.0**	**337.7**	**417.9**	**450.4**	**471.6**	**445.1**	**-24**	**-23**	**-13**	**24**	**8**
Property and equipment	122.0	124.3	119.5	128.0	130.6	141.9	152.3	2	2	-4	7	2
Intangible assets	11.6	13.1	60.2	72.8	86.7	80.7	74.7	93	13	359	21	19
Investments in associates	171.9	179.3	139.0	148.5	164.5	180.5	196.5	7	4	-23	7	11
Deferred tax assets	1.6	2.4	4.0	4.4	4.4	4.4	4.4	153	51	67	11	0
AFS financial assets	46.6	3.7	11.8	61.0	61.0	61.0	14.0	-77	-92	216	416	0
Financial assetes HTM	148.2	40.8	0.0	0.0	0.0	0.0	0.0	-15	-72	-100	NA	NA
Prepayments	3.4	3.3	3.2	3.2	3.2	3.2	3.2	-3	-3	-3	-1	0
Current Assets	445.6	665.5	220.9	141.3	131.6	128.2	171.5	113	49	-67	-36	-7
Inventories	0.4	0.4	0.4	0.3	0.3	0.3	0.3	14	14	3	-33	0
Corporate income tax receivable	5.2	2.4	0.6	0.0	0.0	0.0	0.0	NA	-55	-74	NA	NA
Trade and other receivables	19.8	22.9	81.4	50.3	50.3	50.3	50.3	-32	15	256	-38	0
AFS financial assets	116.5	45.9	30.8	0.0	0.0	0.0	60.0	131	-61	-33	-100	NA
Financial assets HTM	74.4	109.8	0.0	0.0	0.0	0.0	0.0	-14	48	-100	NA	NA
Cash and cash equivalents	229.2	484.2	107.6	90.7	81.1	77.7	60.7	439	111	-78	-16	-11
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.3	NA	NA	NA	NA	NA
Total Assets	**950.9**	**1,055.6**	**558.5**	**559.1**	**582.0**	**599.9**	**616.6**	**9**	**11**	**-47**	**0**	**4**
Equity	**925.9**	**521.8**	**524.7**	**386.6**	**409.4**	**427.4**	**444.1**	**11**	**-44**	**1**	**-26**	**6**
Share capital	63.9	63.9	63.9	63.9	63.9	63.9	63.9	0	0	0	0	0
Other reserves	0.9	1.5	0.2	0.0	0.0	0.0	0.0	-29	58	-86	-115	0
Retained earnings	861.2	455.7	459.8	321.8	344.6	362.5	379.3	12	-47	1	-30	7
Non controlling interest	0.0	0.7	0.9	1.0	1.0	1.0	1.0	NA	NA	18	14	0
Non-Current Liabilities	**2.1**	**3.1**	**4.8**	**3.4**	**3.4**	**3.4**	**3.4**	**11**	**50**	**56**	**-30**	**0**
Employee benefits payable	2.0	2.0	2.4	2.3	2.3	2.3	2.3	11	3	16	-4	0
Debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NA	NA	NA	NA	NA
Current Liabilities	**22.9**	**530.7**	**29.0**	**169.2**	**169.2**	**169.2**	**169.2**	**-37**	**2,213**	**-95**	**484**	**0**
Trade payables	11.0	7.1	7.5	3.3	3.3	3.3	3.3	8	-36	6	-56	0
Corporate income tax payable	0.0	0.0	0.2	5.6	5.6	5.6	5.6	-100	NA	NA	NA	NA
Other liabilities	3.2	513.0	11.4	153.1	153.1	153.1	153.1	116	15,705	-98	1,238	0
Employee benefits payable	8.3	10.3	9.8	7.0	7.0	7.0	7.0	23	25	-5	-28	0
Total Equity and Liabilities	**950.9**	**1,055.6**	**558.5**	**559.1**	**582.0**	**599.9**	**616.6**	**9**	**11**	**-47**	**0**	**4**

Source: Company Reports, Citi Investment Research and Analysis

GPW

Company description

GPW (the Warsaw Stock Exchange, WSE) is Central Europe's largest exchange by market capitalisation and by turnover in cash equities and derivatives. GPW's main business activities comprise: a) listing (9% of the exchange's revenues in 1Q11); b) trading of equities (55%); c) derivatives trading (12%); d) fixed income trading (5%); and e) information services (14%). The company has also a 33% stake in domestic central clearing, settlement and depository entity KDPW.

Investment strategy

We expect GPW to benefit from rising Polish equity market capitalisation and increasing turnover velocity. We also expect the company to take advantage of internalisation process and growth in derivative and fixed income markets. On the other hand, we think growth in volumes will be offset by a decline in fees and rising presence of foreign investors may attract competition from alternative trading platforms. Taking this into account, we think the stock’s P/E valuation in line with global exchange peers is justified and we rate the stock Neutral.

Valuation

Our target price of Zl 44.5 is based on a comparative trading multiple valuation approach (P/E), cross-checked against a DCF valuation. These are standard methods for valuing exchanges. Our valuation based on the comparative approach is Zl 44.5 per share (based on Global Exchanges' average P/E for 2011E, 2012E and 2013E, with weights of 60%, 20% and 20% respectively), while our DCF model implies a slightly lower valuation of Zl 41 per share (WACC 10.5%, terminal growth rate 3%). As DCF valuation is very sensitive depending on assumed terminal growth rate and cash equity fees, our target price is based on the comparative approach.

Risks

GPW is exposed to industry- and company-specific risk factors. The main risks to our target price relate to (1)GPW's high dependence on cash equities for revenues and its strong correlation with the domestic economic cycle, (2) competition from Multilateral Trading Facilities and (3) regulatory risk. Additional risks include (4) cost pressures, (5) the high degree of concentration in the Polish market, and (6) corporate governance (State Treasury retains 51% of voting rights).

If the impact from any of these factors proves to be more negative than we anticipate, the stock will likely have difficulty achieving our financial and price targets. However, if any of these factors proves to have less of an effect than we anticipate, the stock could materially outperform our target.

Company Focus

Open Finance (OPFP.WA)

Changing a Simple Business Model

- Company Update

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Buy/High Risk	**1H**
Price (14 Dec 11)	ZL10.79
Target price	ZL18.40
Expected share price return	70.5%
Expected dividend yield	1.9%
Expected total return	**72.4%**
Market Cap	ZL585M
	US$167M

Price Performance
(RIC: OPFP.WA, BB: OPF PW)

- **Attractively valued at c.6x 2012E P/E** — We have liked the simplicity of the company's business model to date (based on up-front fees from the sale of third-party financial products) and the fact that it is not 'a balance sheet company'. The lack of on-balance-sheet risk, coupled with the lack of leverage needs, leads to no capital requirements (regulatory or market-driven). Given that its branches are not highly capital-intensive, almost all of its net profit can be distributed to shareholders. The recent changes in strategy increase short-term risks but at c.6x 2012E P/E the stock looks attractive. We rate it Buy/High Risk.

- **A Simple Business Model...**— Open Finance is a financial advisor that benefits from sales of third-party mortgage loans and investment products through its network of 98 branches and 828 advisors. The company earns upfront fees (e.g. about 3% on sold mortgages), pays mostly variable remuneration to its advisors, covers its fixed costs for other staff and relatively low running costs, invests in marketing and distributes the remaining profits to shareholders.

- **...Is to Be Changed** — Going forward, the company's business model will become more sophisticated because: 1) the company has acquired a 49% stake in My Life insurer and will start to sell (through own channels but also through other banks) insurance products (predominantly unit-links); 2) Open Finance intends to decrease its dependence on current flows and, in selling third-party investment products, will want to participate in management fees instead of cashing only up-front fees (but this change will require modification to advisors' remuneration policy, which could prove a challenge); 3) the company has acquired Home Broker, a one-stop real-estate agent and financial advisor.

- **High Operational Leverage** — The disadvantage of the current business model is its high dependence on current flows, as practically all revenues are from current sales. On the other hand, due to the high share of variable remuneration in the company's administrative costs, its operational gearing is not as high as might be expected, given a cost-to-income ratio of over 70%.

- **Dependence on Transactions with GNB and TU Europa** — In our opinion the biggest risk factor for the stock is the company's high dependence on inter-group transactions. Dependence on products from related companies is a negative due not only to higher business risk (any change in ownership at these companies could lead to changes in business flows) and reduced transparency (the risk of mispricing on intra-group transactions) but also to reputational risk (is more difficult for Open Finance to present itself as an independent financial advisor).

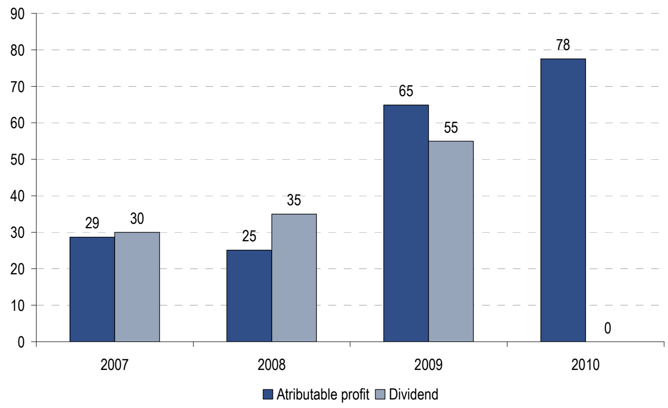
Open Finance (PLN)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Net Income (ZLM)	64.9	77.6	88.2	103.5	104.4
Diluted EPS (ZL)	1.30	1.55	1.69	1.91	1.92
Diluted EPS (Old) (ZL)	1.30	1.55	1.69	1.91	1.92
PE (x)	8.3	7.0	6.4	5.7	5.6
P/BV (x)	8.2	6.1	2.3	1.7	1.6
DPS (ZL)	1.10	0.00	0.20	1.43	1.44
Net Div Yield (%)	10.2	0.0	1.8	13.3	13.4
ROE (%)	122.2	101.0	51.6	34.5	29.0

Open Finance

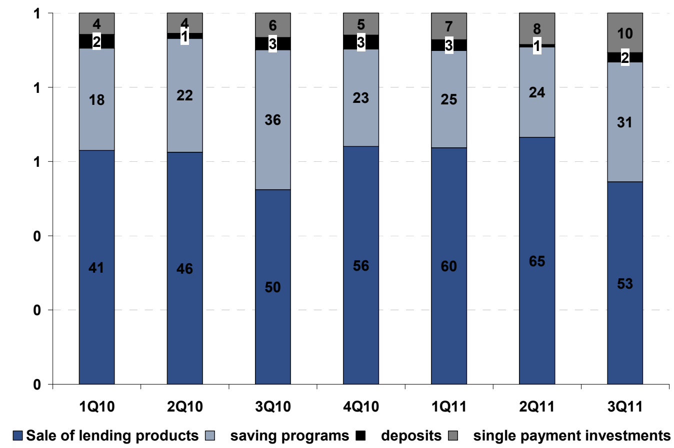
Key Charts

Figure 212. Open Finance – Net Profit vs. Dividends, 2007-2010 (Polish Zloty in million)



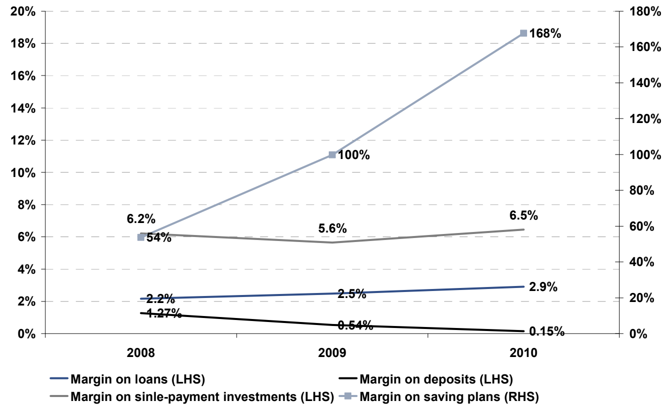
Source: Citi Investment Research and Analysis

Figure 213. Open Finance – Revenue Breakdown, 1Q10-3Q11 (Polish Zloty in million)



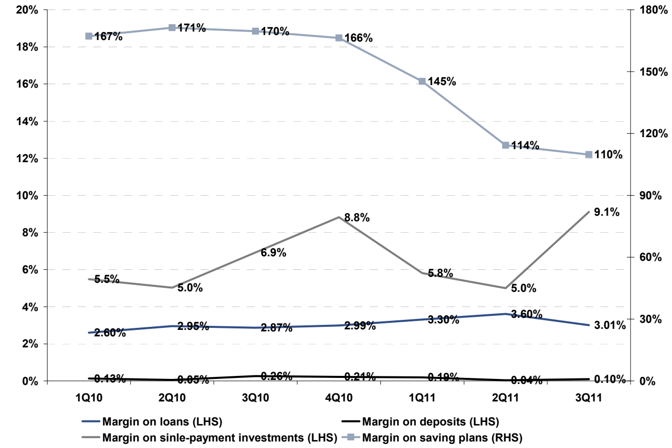
Source: Citi Investment Research and Analysis

Figure 214. Open Finance – Margins, 2008-2010 (Percentage)



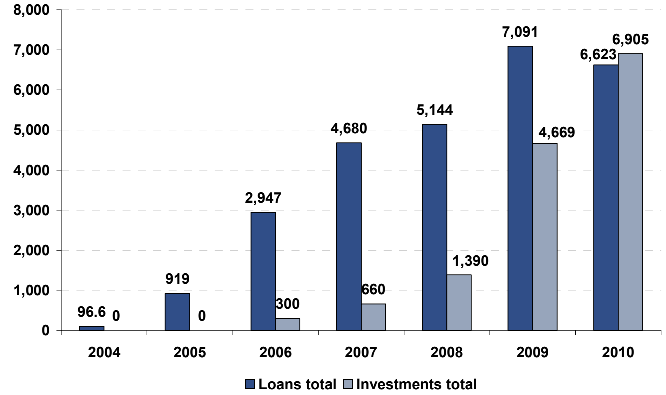
Source: Citi Investment Research and Analysis

Figure 215. Open Finance – Margins, 1Q10-3Q11 (Percentage)



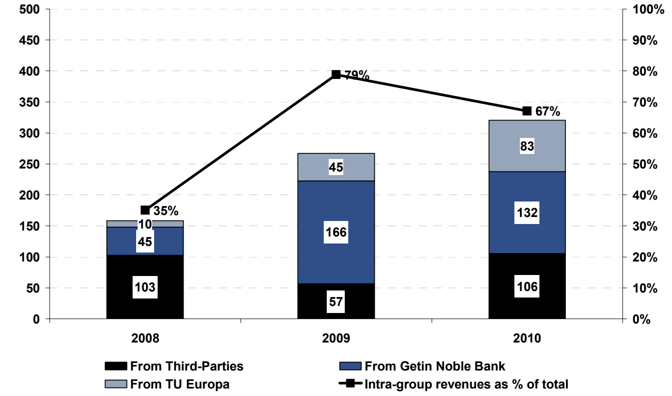
Source: Citi Investment Research and Analysis

Figure 216. Open Finance – Sale of Lending and Investment Products, 2004-2010 (Polish Zloty in million)



Source: Citi Investment Research and Analysis

Figure 217. Open Finance – Revenues from Intra-group Transactions, 2008-2010 (Polish Zloty in million)



Source: Citi Investment Research and Analysis

Financial Forecasts

Figure 218. Open Finance – Summary Financial History and Forecasts (Polish Zloty in million)

								YoY %			
Income Statement	**2008**	**2009**	**2010**	**2011E**	**2012E**	**2013E**	**2014E**	**2009**	**2010**	**2011E**	**2012E**
Sale of lending products	111.5	176.0	192.4	230.5	211.9	174.2	176.2	57.9	9.3	19.8	-8.1
Sale of investment products	46.8	91.1	127.9	156.7	245.2	302.9	361.5	94.7	40.5	22.5	56.4
Total revenues	**158.2**	**267.1**	**320.3**	**387.2**	**517.0**	**543.4**	**610.6**	**68.8**	**19.9**	**20.9**	**33.5**
Personnel costs	-57.6	-95.1	-115.3	-156.6	-217.2	-228.2	-256.4	65.0	21.3	35.8	38.7
Non-personnel costs	-64.5	-85.8	-99.2	-121.3	-160.4	-177.2	-197.2	32.9	15.7	22.3	32.2
Depreciation	-5.5	-6.4	-7.6	-8.4	-9.5	-10.3	-10.8	17.9	17.3	10.7	13.7
EBIT	**30.7**	**79.9**	**97.4**	**105.6**	**131.2**	**128.9**	**147.3**	**160.1**	**22.0**	**8.4**	**24.2**
Net Financial Income	0.6	0.7	-1.0	5.9	0.7	3.0	3.9	16.6	na	na	-88.0
Profit before tax	31.3	80.6	96.4	109.8	129.3	130.5	151.7	157.2	19.6	13.9	17.8
Tax	-6.2	-15.7	-18.8	-21.6	-25.9	-26.1	-28.8	152.6	20.2	14.8	19.6
Net Profit	**25.1**	**64.9**	**77.6**	**88.2**	**103.5**	**104.4**	**122.9**	**158.4**	**19.5**	**13.7**	**17.3**
								0.0	0.0	0.0	0.0
Balance Sheet								0.0	0.0	0.0	0.0
Non-Current Assets	**12.0**	**14.7**	**18.4**	**241.1**	**248.7**	**250.5**	**251.7**	**22.7**	**25.3**	**1210.0**	**3.1**
Tangible fixed assets	9.8	11.3	11.2	15.4	18.0	19.7	21.0	15.4	-0.9	37.2	16.6
Receivables	0.5	0.6	1.6	2.6	2.6	2.6	2.6	9.3	168.8	65.8	0.0
Shares in associated companies	0.0	0.0	0.0	215.0	220.0	220.0	220.0	na	na	na	2.3
Current Assets	**43.8**	**97.5**	**117.1**	**69.6**	**167.7**	**201.2**	**250.4**	**122.7**	**20.0**	**-40.6**	**141.1**
Accruals	27.1	48.7	36.1	55.4	72.4	83.4	84.0	79.5	-25.8	53.4	30.7
Financial assets	0.0	0.0	0.0	0.4	5.7	13.3	21.8	na	na	na	1363.5
Cash and equivalents	9.3	29.5	19.9	3.4	71.0	77.2	103.0	217.8	-32.4	-83.0	1996.0
Total assets	**55.8**	**112.2**	**135.5**	**310.7**	**416.4**	**451.7**	**502.2**	**101.3**	**20.7**	**129.3**	**34.0**
Equity	40.8	65.5	88.1	253.9	346.8	373.6	418.2	60.7	34.4	188.3	36.6
Non-Current Liabilities	0.8	8.4	1.6	0.8	0.8	0.8	0.8	926.2	-81.1	-50.3	0.0
Current Liabilities	14.2	38.3	45.8	56.0	68.8	77.3	83.2	170.2	19.7	22.2	22.9
Accruals	9.7	25.8	39.9	46.3	59.1	67.6	73.5	167.3	54.7	15.9	27.7
Total Equity and Liabilities	**55.8**	**112.2**	**135.5**	**310.7**	**416.4**	**451.7**	**502.2**	**101.3**	**20.7**	**129.3**	**34.0**

Source: Company reports, Citi Investment Research and Analysis

Open Finance

Company description

Open Finance is the leading financial advisor in Poland. It is the biggest mortgage broker (with 43% market share in 2010, or c20% excluding sale of loans of capital-related Getin Noble Bank) and an active distributor of investment products. Its distribution network consists of 98 outlets: 53 branches located mainly on high streets and 45 Open Direct branches, which are offices for mobile advisors. The company has 828 advisors (of whom 368 are mobile and 460 work in branches).

Investment strategy

We rate Open Finance Buy/High Risk. We have liked the simplicity of the company's business model to date (based on up-front fees from the sale of third-party financial products) and the fact that it is not 'a balance sheet company'. The lack of on-balance-sheet risk, coupled with the lack of leverage needs, leads to no capital requirements (regulatory or market-driven). Given that its branches are not highly capital-intensive, almost all of its net profit can be distributed to shareholders. The recent changes in the company's strategy (acquisitions of a life insurer and financial and real-estate market intermediary Home Broker) may be positive in the long term, but could negatively affect dividends and increase operational risk short term. Nevertheless, with the stock trading at a discount to its domestic and European peers, its valuation appeal outweighs these risks, in our view.

Valuation

We value Open Finance using a three-stage Discounted Cash Flow (DCF) model and complement this with a comparative multiple analysis (comparison of P/E and P/BV multiples).

In our DCF model, we take 2011-15 free cash flows (FCF) from our medium-term earnings model. For 2016-20 our FCF forecasts are based on an abbreviated model of key line items including revenues, costs, net other operating income, depreciation and capex growth (we assume 4%, 7%, 3%, 4% and 4%, respectively). We use a sustainable perpetual growth rate in FCF of 0% and a cost of equity of 10.5%. Our DCF model implies a valuation of Zl 18.4 per share.

At this level, Open Finance woiuld trade broadly in line with its global peers on P/E and at a premium on P/B - which we consider justified in light of its superior ROE.

Reflecting this, we set our target price in line with our DCF valuation of Zl 18.4 per share.

Risks

We rate Open Finance High Risk based on our assessment of industry- and company-specific risk factors. The following risk factors might cause the share price to deviate from our target price. The macro economy may perform worse or better than anticipated and lead to higher/lower demand for mortgage loans and investment products. Specifically for Open Finance, we highlight that: 1) the company is highly dependent on the sale of Getin Noble Bank products; 2) its revenues depend on factors that are outside its control (e.g. banks' appetite for risk and clients' demand for lending and investment products); and 3) planned changes in the company's business model could bring risk to its profitability. If the impact on the company from any of these factors proves to be more negative than we anticipate, the stock will likely have difficulty achieving our financial and price targets. Conversely, if any of these factors proves to have less of an effect than we anticipate, the stock could materially outperform our target.

Company Focus

- Company Update
- Target Price Change
- Estimate Change

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Neutral	**2**
Price (14 Dec 11)	SFr10.25
Target price	SFr11.20
from SFr11.50	
Expected share price return	9.3%
Expected dividend yield	4.9%
Expected total return	**14.1%**
Market Cap	SFr2,012M
	US$2,127M

Price Performance
(RIC: GAMH.S, BB: GAM SW)

GAM Holding Ltd (GAMH.S)

Not quite yet

- **Summary** — Solid business, facing a number of headwinds. Outflows from historic offshore private banking channels have slowed. This should be the time for good growth in new strategies to come through. But wider market dislocations and investor risk aversion have put this recovery story on hold for now.
- **Headwinds to AUM growth** — GAM continues to see modest outflows from legacy private bank offshore relationships. New UCITS-driven growth is 'on hold' for now, given a volatile and risk-averse investment backdrop. We look for a return of investor risk appetite before fund flows can really start growing again.
- **Swiss Franc Sensitivity** — Stabilisation of Swiss Franc vs. US$ is a relief, as strength had been a problem both for reported AUM but also in the mix of revenues and costs (40% revenues earned in USD, 34% EUR, 16% CHF, 10% GBP, vs. 45% costs incurred in CHF, 28% GBP, 14% EUR and 13% USD).
- **Performance fees subdued** — The key contributors of performance fee revenues at GAM have been the Absolute Return Bond Fund and, to a lesser extent, the Global Rates funds. We do not expect either to contribute significant performance fees in 2012 (the Bond Fund crystallises these annually in June).
- **Cost control** — GAMH beat market expectations in H1 2011, in large part due to much better cost control than had been anticipated. However, the group has indicated that H1's 61.6% cost income ratio is expected to trend upwards.
- **Buy back on track** — GAMH's 41.3m share buyback programme (over three years from May 2011) continues, with 8.6m shares repurchased to date and 4m treasury shares transferred to the buy back programme.
- **Not quite yet** — Performance is close to its mid-term targets for cost income ratio (67% GAM H1 2011 vs. target 60% to 65%, 51.7% S&G vs. 53%-58% target) and gross margin (73.6bp GAM H1 2011 vs. target 73-80bp, 28bp S&G vs. 26-29bp target). But net new money is still some way off targets, at 2% opening GAM AUM (target 6-10%) and 3% opening S&G AUM (target 8-12%). Lacklustre investment returns and market-wide investor risk aversion look likely to hold back achievement of net new money targets for now.
- **Neutral, CHF11.20 target** — We rate GAM Neutral, with a CHF11.20 target. We adjust our EPS forecasts and target price to reflect recent fund performance data.

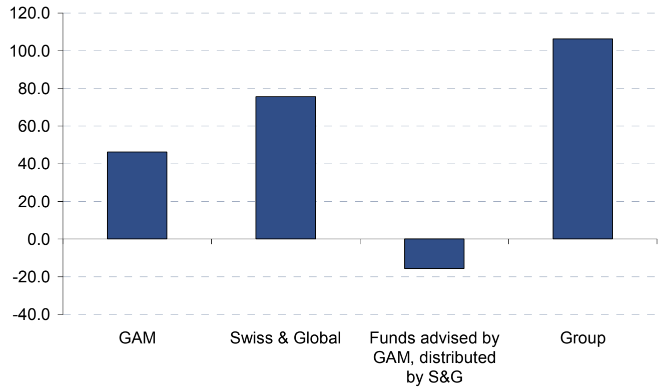
GAM Holding Ltd (CHF)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Net Income (SFrM)	149.6	202.2	162.7	151.0	193.0
Diluted EPS (SFr)	0.72	1.04	0.87	0.88	1.23
Diluted EPS (Old) (SFr)	0.72	1.04	0.84	0.89	1.26
PE (x)	14.2	9.9	11.8	11.7	8.4
P/BV (x)	0.8	0.8	0.8	0.8	0.9
DPS (SFr)	0.00	0.50	0.50	0.70	0.90
Net Div Yield (%)	0.0	4.9	4.9	6.8	8.8
ROE (%)	96.2	0.4	2.6	2.3	4.9

GAM Holding

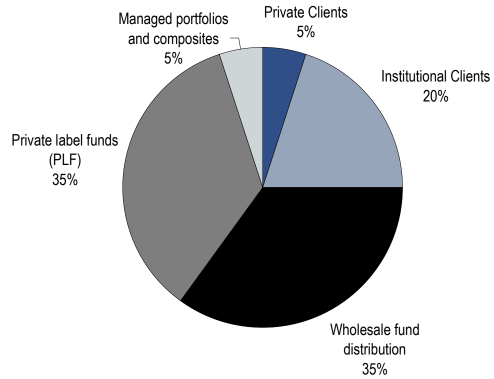
Key Charts

Figure 219. GAM Holdings AUM at end September, CHFbn



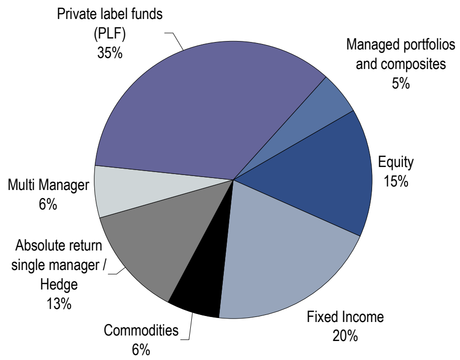
Source: Company Data

Figure 220. GAM Holdings AUM at end June, split by client type



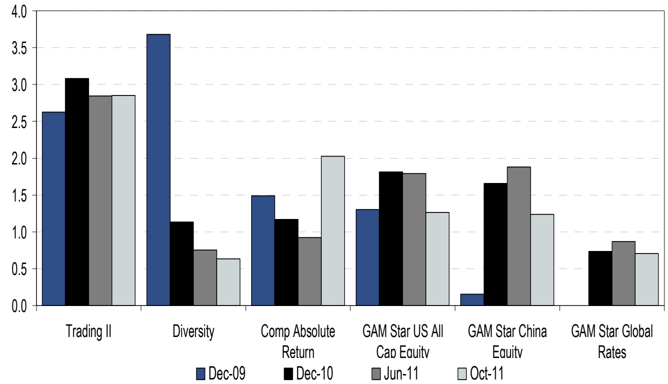
Source: Company data

Figure 221. GAM Holdings AUM at end June, split by asset class



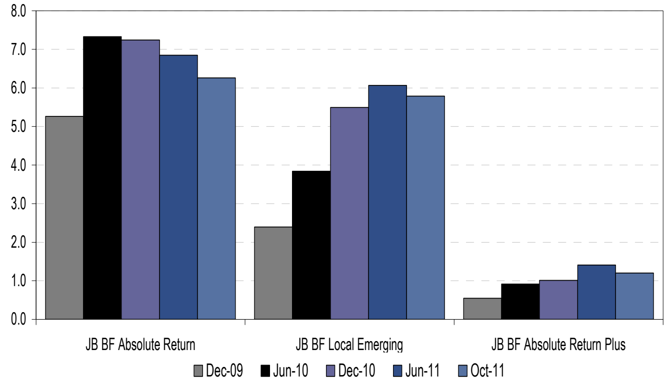
Source: Company Data

Figure 222. AUM in key GAM funds (CHF bn)



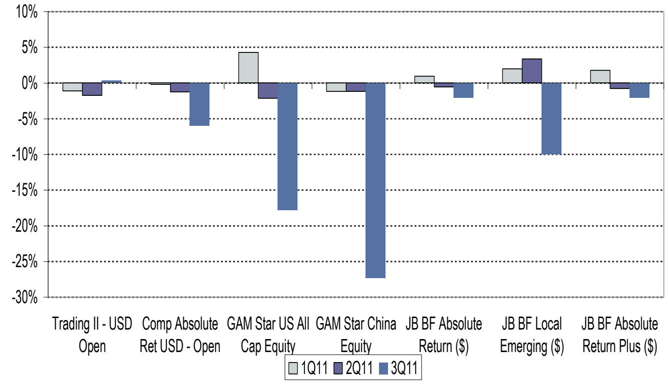
Source: Company data

Figure 223. AUM in key S&G funds advised by GAM (CHF bn)



Source: Company data

Figure 224. Quarterly Investment Performance of key funds



Source: Company data

Financial Forecasts

Figure 225. GAM Holdings – Summary Financial History and Forecasts

SFr in Millions	2010	% chg	2011E	% chg	2012E	% chg	2013E	% chg	2014E	% chg	1H10	2H10	1H11	2H11E
Net Fee and Commission Income	570	+9%	555	-3%	554	-0%	611	+10%	681	+11%	286	284	284	271
Performance Fees	90	nm	21	-77%	25	+18%	50	+103%	55	+11%	58	32	16	5
Net Income from Associates	28		21		17		17		17		16	11	12	9
Other Ordinary Results	25	+48%	22	-12%	26	+18%	29	+10%	31	+10%	8	17	13	9
Revenues	**713**	**+21%**	**619**	**-13%**	**622**	**+0%**	**706**	**+14%**	**785**	**+11%**	**368**	**345**	**325**	**294**
Personnel Expenses	-335	+29%	-300	-10%	-308	+3%	-329	+7%	-354	+8%	-172	-163	-147	-154
General Expenses	-125	-5%	-107	-14%	-115	+7%	-125	+9%	-136	+9%	-57	-68	-50	-57
Depreciation & Amortisation	-7	-36%	-9	+33%	-10	+9%	-11	+10%	-12	+10%	-3	-4	-3	-6
Operating Expenses	-466	+16%	-417	-11%	-433	+4%	-465	+7%	-502	+8%	-232	-234	-200	-217
Profit Before Tax	**247**	**+31%**	**203**	**-18%**	**189**	**-7%**	**241**	**+28%**	**283**	**+17%**	**136**	**111**	**125**	**78**
Taxes	-44		-40		-38		-48		-57		-29	-15	-24	-16
Net profit	202	+35%	163	-20%	151	-7%	193	+28%	227	+17%	106	96	100	62
Exceptional items	-180		0		0		0		0		0	-180	0	0
Amort'n & Impairments	-12		-104		-104		-104		-104		-6	-6	-98	-6
Attributable profit (reported)	10	-100%	59	nm	47	-20%	89	+89%	123	+38%	101	-90	2	56
PER SHARE FIGURES														
EPS -- as reported	0.05	-100%	0.29	nm	0.29	-2%	0.58	+103%	0.85	+47%	0.49	-0.44	0.01	0.29
EPS -- underlying diluted	**1.04**	**+44%**	**0.87**	**-16%**	**0.88**	**+1%**	**1.23**	**+39%**	**1.57**	**+28%**	**0.54**	**0.49**	**0.54**	**0.33**
Dividend per share	**0.50**		**0.50**		**0.70**		**0.90**		**1.20**					
Total diluted shares (period-average)	194.5		187.2		171.7		157.4		144.2		198.1	194.5	187.0	187.4
OPERATING RATIOS														
Comp ratio (personnel expenses / income)			48%		50%		47%		45%		47%	47%	45%	52%
Non-comp ratio (other expenses / income)			19%		20%		19%		19%		16%	21%	16%	21%
Cost/Income	65%		67%		70%		66%		64%		63%	68%	62%	74%
Effective tax rate	18%		20%		20%		20%		20%		22%	13%	19%	20%
AUM DATA														
Assets under Management	117,800	+4%	109,075	-7%	118,072	+8%	131,329	+11%	146,064	+11%	116,580	117,800	113,500	109,075
AuM (average)	115,724	+9%	113,437	-2%	113,573	+0%	124,700	+10%	138,696	+11%	117,900	118,400	117,800	111,287
Net New Money / AuM	+5.8%		+0.3%		+4.2%		+7.2%		+7.2%		+9.9%	+4.1%	+1.0%	-0.5%
Net New Money	+6,600		+329		+4,635		+8,533		+9,482		+5,600	+2,400	+600	-272
Revenues/AuM - total	0.62%		0.55%		0.55%		0.57%		0.57%		0.62%	0.58%	0.55%	0.53%
PBT / avg AuM	0.21%		0.18%		0.17%		0.19%		0.20%		0.23%	0.19%	0.21%	0.14%
BALANCE SHEET ITEMS														
GAM Goodwill	1,077		1,077		1,077		1,077		1,077		1,071	1,077	1,077	1,077
Total Goodwill & Intangibles		-1%	1,379	-0%	1,379	+0%	1,379	+0%	1,379	+0%	1,391	1,385	1,379	1,379
Cash	819		691		476		277		96		795	819	644	691
Total Assets	2,883	-9%	2,638	-9%	2,448	-7%	2,277	-7%	2,127	-7%	3,042	2,883	2,576	2,638
Shareholders equity excl minorities		-6%	2,136	-13%	1,920	-10%	1,742	-9%	1,585	-9%	2,660	2,452	2,201	2,136
Tangible equity	1,067		757		541		363		206		1,269	1,067	822	757

Source: Citi Investment Research and Analysis

Figure 226. GAM Holdings – Sum of the Parts (PE) Valuation (CHF)

	2012E		2012E
Group Underlying Net Income	151	Performance Fee Net Income	16
ex-Artio income	-17	Performance Fee Multiple	6.0x
ex-Cash income	-8	**Performance Fee Value**	**94**
Group Underlying Net Income	127	Artio (market value of 27.9% stake)	106
Less Performance Fee Net Income*	-16	NPV of Net Cash	377
Adjusted Management Fee Net Income	111	**Total Fair Value**	**1,909**
Management Fee Multiple	12.0x	Diluted sharecount	172
Management Fee Value	**1,332**	**Total Fair Value Per Share**	**CHF 11.2**

Source: Citi Investment Research and Analysis

GAM Holding Ltd

Company description

GAM was founded in 1983 by Gilbert de Botton, before being acquired by UBS in 1999, and subsequently Julius Baer Holdings in December 2005. As of 30 June 2009 GAM Holdings employed 4,255 people, of which 63% are based in Switzerland, and had approximately SFr117bn assets under management. The group operates through two divisions, GAM and Swiss & Global Asset Management (formerly Julius Baer Asset Management).

Investment strategy

We have a Neutral recommendation on GAM Holding.

GAM and S&G are still heavily reliant on UBS and Baer as distributors. We see limited client attrition, but as Baer moves to an open architecture platform, both will likely have to seek out new distribution partners and institutional investors to make good the shortfall.

Higher retrocession fees could lead to gradual margin compression, while the new corporate centre and Baer brand license fee suggest limited ability to reduce costs.

Longer-term GAM Holdings offers a highly scalable model, with an established management team, strong brand awareness and a long-term performance track record.

Valuation

Our primary valuation methodology for GAM Holdings is based on a sum-of-the-parts and cash-adjusted PE analysis. We believe this SOTP is the most relevant approach to account for GAM Holding's 27.9% residual stake in Artio, the net cash position, as well as the different quality of GAM’s income streams between management fees and performance fees. We apply through-cycle peer group multiples to derive average forward multiples, which we apply to GAM Holding’s 2011-14E earnings. This SOTP analysis points to a theoretical valuation of SFr11.2 per share, which we set as our target price.

Risks

We note the following company specific/industry risks which could affect the achievement of our target price:

Like other asset gatherers, GAM's AuM base (and thus revenues and profits) is sensitive to movements in markets, currencies and investment performance.

GAM is also starting to become more reliant on performance fees to drive revenue growth, which tend to be more volatile than management fees. In particular, GAM has shown significant reliance on one fund (Absolute Return Bond Fund) for performance fee generation.

The fund of hedge fund industry, to which GAM Holdings is heavily exposed, has struggled, with large outflows in recent years.

If the impact of these risk factors is more or less negative than we currently anticipate, then the share price could fail to reach or exceed our target price.

Company Focus

Gottex Fund Management Holdings Ltd (GFMN.S)

Out of favour

- Company Update

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haley.tam@citi.com

Neutral	**2**
Price (13 Dec 11)	SFr2.77
Target price	-
Expected share price return	-
Expected dividend yield	-
Expected total return	**-**
Market Cap	SFr85M US$90M

Price Performance
(RIC: GFMN.S, BB: GFMN SW)

- **Summary** — Uncertainty and volatility dampen near-term fund flow expectations, and the run-off of Asset Based Strategies continues to weigh on fee margin trends. Near-term recovery from here is performance fee dependent, in our view.
- **Unprofitable** — We forecast Gottex is unable to generate a profit in FY11, just as it was unable to also in FY10. This reflects the low levels of performance fees that Gottex has been able to generate from its flagship Market Neutral and Market Neutral Plus funds in recent years.
- **Flow trends** — Gottex has consistently seen net outflows from its Market Neutral and Asset Based Strategies since 2008. Strong net inflows into GSS funds in H2 2010 diminished in H1 2011 and look set to be further subdued in H2 2011.
- **Out of favour** — As a small ($8bn AUM) fund of hedge funds manager, Gottex' fund flow experience will necessarily be industry trend led, even though performance of its flagship funds are in many cases ahead of benchmarks. Recent market moves, and demonstration (again) by many high profile hedge funds of a failure to deliver absolute returns in volatile markets has not helped investor demand for hedge funds or funds of hedge funds.
- **Neutral** — We rate Gottex Neutral. Next news: Pre-close update 25 January 2012, FY11 annual results 27 March 2012

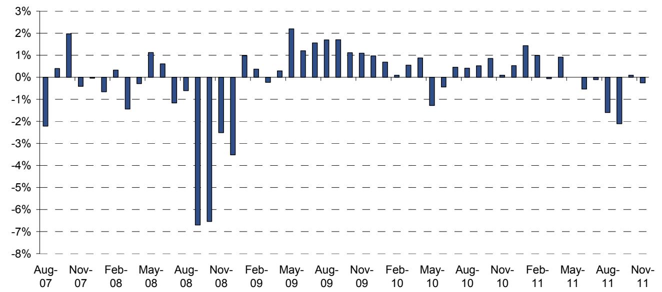
Gottex Fund Management Holdings Ltd (USD)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Net Income ($M)	7.2	-3.0	-0.9	6.1	15.5
Diluted EPS ($)	0.24	-0.10	-0.03	0.20	0.50
Diluted EPS (Old) ($)	0.24	-0.10	-0.03	0.20	0.50
PE (x)	12.4	-28.1	-95.0	14.8	5.8
P/BV (x)	1.9	1.9	1.9	1.8	1.6
DPS ($)	0.12	0.00	0.00	0.10	0.25
Net Div Yield (%)	3.9	0.0	0.0	3.4	8.5
ROE (%)	15.5	-6.8	-2.2	13.6	30.8

Gottex Fund Management Holdings Ltd

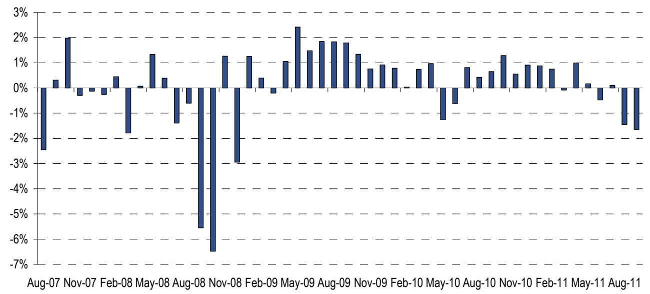
Key Charts

Figure 227. Monthly Returns – Gottex Market Neutral Fund



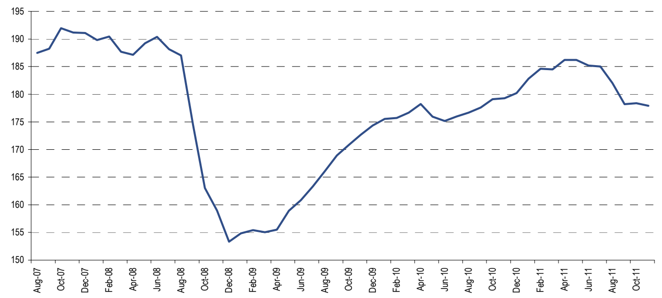
Source: Company Reports, Citi Investment Research and Analysis

Figure 228. Monthly Returns – Gottex Market Neutral Plus Fund



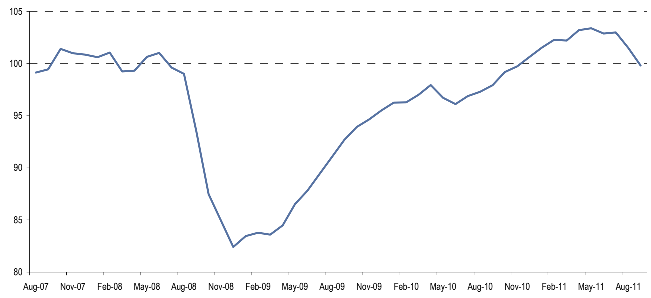
Source: Company Reports, Citi Investment Research and Analysis

Figure 229. Gottex Market Neutral Fund NAV: Aug 07-Nov 11 (USD)



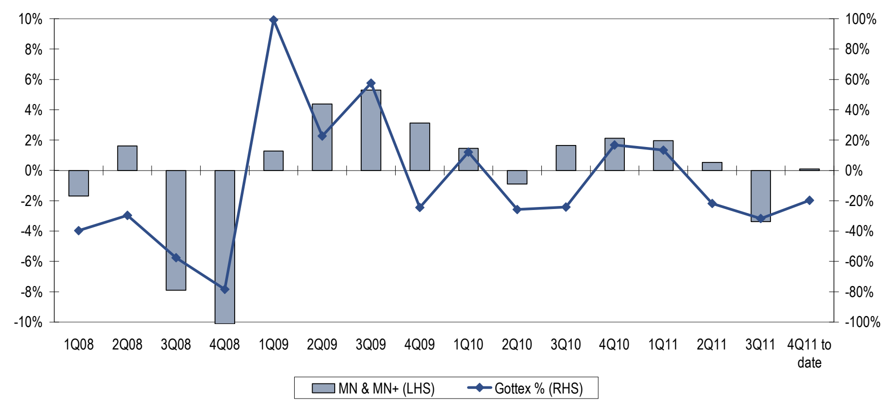
Source: Company Reports, Citi Investment Research and Analysis

Figure 230. Gottex Market Neutral Fund Plus NAV: Aug 07-Nov 11 (USD)



Source: Company Reports, Citi Investment Research and Analysis

Figure 231. Gottex quarterly share price returns vs. average Market Neutral fund performance



Source: Company Reports, Citi Investment Research and Analysis

Financial History and Forecasts

Figure 232. Gottex – Summary Financial History and Forecast

US$ millions	2006	2007	2008	2009	2010	2011E	2012E	2013E	2014E
Management Fees:									
MN and Directional Funds	57.1	97.6	107.1	47.4	32.2	27.8	30.3	38.5	48.9
Asset Based Strategies	7.7	33.0	40.2	26.6	21.6	18.8	14.8	12.5	13.1
Enhanced Index Products	0.0	1.3	7.0	3.9	3.9	3.7	3.4	4.9	6.3
Total management fees	**69.0**	**131.9**	**154.3**	**77.9**	**57.7**	**50.4**	**48.5**	**55.9**	**68.4**
Performance Fees:									
MN and Directional Funds	40.6	42.1	0.0	0.4	0.4	4.0	14.8	20.6	28.8
Asset Based Strategies	4.2	9.4	2.1	0.5	0.8	0.0	0.0	0.0	0.0
Enhanced Index Products	0.0	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total performance fees	**46.2**	**52.8**	**2.1**	**0.9**	**1.2**	**4.0**	**14.8**	**20.6**	**28.8**
Advisory Mandates	0.0	2.4	3.4	2.0	1.1	1.4	2.6	3.9	5.0
GSS	0.0	0.0	0.0	0.4	1.9	3.7	5.0	6.7	8.5
Structure and Leverage Fees	6.5	6.7	8.0	1.6	1.8	1.4	1.4	1.6	1.9
Gross Revenues	**121.7**	**193.8**	**167.8**	**82.8**	**63.8**	**60.9**	**72.2**	**88.6**	**112.6**
Total Referral Fees on FoF	-25.2	-36.5	-36.3	-17.8	-10.7	-9.7	-11.4	-13.8	-17.6
Gross Profit	**96.5**	**157.3**	**131.5**	**65.1**	**53.1**	**51.2**	**60.9**	**74.9**	**95.1**
Personnel Expenses	-18.0	-37.6	-35.0	-29.0	-34.8	-34.5	-36.5	-39.2	-42.9
Share Based Payments & Other	-2.4	-9.3	-21.1	-11.4	-10.8	-6.5	-6.1	-5.3	-5.6
Total Compensation Expenses	-20.4	-46.9	-56.1	-40.4	-45.5	-41.0	-42.6	-44.6	-48.6
Total Other Expenses	-8.8	-10.9	-16.9	-14.5	-12.6	-11.8	-12.0	-12.4	-13.0
Total Operating Expenses	**-29.2**	**-57.8**	**-73.0**	**-54.9**	**-58.1**	**-52.8**	**-54.6**	**-57.0**	**-61.6**
Exceptional Costs	0.0	-8.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Expenses	-29.2	-66.6	-73.0	-54.9	-58.1	-52.8	-54.6	-57.0	-61.6
Operating Profit - underlying	**67.2**	**99.5**	**58.5**	**10.2**	**-5.0**	**-1.5**	**6.3**	**17.9**	**33.4**
Operating Profit	67.2	90.7	58.5	10.2	-5.0	-1.5	6.3	17.9	33.4
Net Financial & Associate Income	1.2	2.4	0.7	0.0	0.2	0.2	0.4	0.5	0.6
Loans, Assets & Goodwill Impairment	0.0	0.8	-8.6	-2.5	-2.5	0.8	0.8	0.8	0.8
Pre-Exceptional PBT	**68.4**	**102.7**	**50.6**	**7.7**	**-7.3**	**-0.5**	**7.5**	**19.2**	**34.8**
Tax	-8.3	-9.4	-5.1	0.4	3.7	0.0	-0.8	-2.1	-4.0
Discontinued Operations	0	0.0	0.0	-0.4	0.0	0.0	0.0	0.0	0.0
Minority Interests	-6.7	-10.6	-2.7	-0.5	0.6	-0.5	-0.6	-1.6	-2.9
Pre-Exceptional Net Profits	53.4	82.7	42.8	7.2	-3.0	-0.9	6.1	15.5	27.9
Pre-Exceptional Basic EPS, US$	1.97	3.01	1.46	0.25	-0.10	-0.03	0.21	0.54	0.97
Pre-Exceptional Diluted EPS, US$	**1.88**	**2.86**	**1.44**	**0.24**	**-0.10**	**-0.03**	**0.20**	**0.50**	**0.91**
DPS, US$	**0.39**	**0.45**	**0.60**	**0.12**	**0.00**	**0.00**	**0.10**	**0.25**	**0.45**
RATIOS & SHARES OUTSTANDING									
GFM mgt fees as % of av AuM, %			1.16%	0.99%	0.87%	0.86%	0.83%	0.80%	0.79%
Gross profit as % of av AuM, %	1.61%	1.38%	0.92%	0.76%	0.69%	0.60%	0.63%	0.61%	0.62%
Operating profit margin, %	69.7%	57.7%	44.5%	15.6%	-9.4%	-3.0%	10.3%	23.9%	35.2%
Pre-Exceptional Effective Tax Rate, %	-12.1%	-9.2%	-10.1%	4.8%	-51.6%	-0.8%	-10.5%	-11.0%	-11.5%
Av Number of Diluted Shares, Millions	28.5	28.9	29.7	30.2	28.4	30.7	30.7	30.7	30.7
AUM & INFLOWS ($bn)									
Total Opening AuM	5.2	7.0	16.0	9.6	8.1	8.3	8.4	10.8	13.8
Total net performance	0.5	1.3	-3.3	0.2	-0.1	0.0	0.4	0.4	0.6
Total FX & Other	na	na	-1.8	-0.4	-0.1	0.1	0.0	0.0	0.0
Total net sales	1.4	7.7	-1.3	-1.3	0.3	0.1	2.1	2.7	2.8
Closing AuM:									
MN and Directional Funds	5.2	11.0	5.9	4.8	4.1	3.8	4.8	6.2	7.8
Asset Based Strategies	1.8	3.5	2.6	2.1	1.6	1.3	0.9	0.9	1.0
Enhanced Index Products	0.0	0.6	0.4	0.5	0.6	0.3	0.5	0.6	0.7
Advisory Mandates	0.0	0.9	0.7	0.4	0.5	0.9	1.6	2.2	2.8
GSS	na	na	na	0.3	1.6	2.1	2.9	3.8	4.7
Total AuM	**7.0**	**16.0**	**9.6**	**8.1**	**8.3**	**8.4**	**10.8**	**13.8**	**17.0**

Source: Company reports, Citi Investment Research and Analysis

Gottex Fund Management Holdings Ltd

Company description

Gottex Fund Management Holdings (Gottex) is a specialist fund of hedge funds manager, listed on the main segment of the SWX. The group launched its first fund in 1999. At end-September 2011, Gottex had AuM of $8.2bn.

Investment strategy

2008 saw unprecedented times for the hedge fund industry, following large-scale redemptions and a collapse in market liquidity. Gottex has since taken the sensible step of restructuring its funds, lowering leverage levels and moving to a quarterly redemption schedule. Fee structures have been adjusted and the cost base realigned. Funds have now reopened and redemptions have been less than anticipated; however, the run-off portfolio still needs to be fully unwound, management fees will now be lower and performance fees are only just starting to recover. Over the longer term, Gottex could yet capitalise from the current market dislocation, should competitive pressures ease and the structural diversification trend towards alternative assets return. We rate Gottex Neutral.

Valuation

This company has a Neutral rating. We have not assigned a target price and therefore no valuation methodology is applicable.

Risks

We note the following company specific/industry risks which could affect the share price:

If performance of the market neutral fund were to disappoint once more, then this could accelerate redemptions. Alternatively if performance continues to strengthen, then Gottex may be able to return to high water marks in both flagship funds at an earlier date than we forecast.

The asset-based funds still have to go through a period of painful restructuring and deleveraging. This may continue to hinder future performance. Liquidity mismatch, leverage and FX risk, while diminished, are still present.

We expect increased margin pressure, especially with regard to the compounding of fees on fund-of-funds, following the market dislocation.

Best Ideas

Relative Call - Replacing FCAM.L with SDR.L, Adding ASHM.L and ICP.L, Closing IAP.L and BME.MC

Summary - We name SDR.L a Least Preferred stock relative to our fundamental analyst coverage for the next 3 Months, replacing FCAM.L, which we last selected on 29 Sep 2011.

Furthermore, we name ASHM.L a Most Preferred stock and ICP.L a Least Preferred stock relative to our fundamental analyst coverage for the next 3 Months.

Moreover, we remove IAP.L as a Most Preferred stock and BME.MC as a Least Preferred stock relative to our fundamental analyst coverage for the next 3 Months, which we last selected on 15 Sep 2011.

Change Rationale

When we previously set BME as our least preferred stock, we had assumed that the change in Spanish post trade reforms would drive a loss of BME’s market share and pricing. This has not materialised yet. We think eventually it will but it will take longer than we thought. As such, we continue to rate BME Sell, however we remove it from least preferred list due to a lack of short term catalysts. We replace it with ICG.

When we previously set F&C as a least preferred stock, we were concerned that Part 1 of the group's strategic review (published in October) would turn out not to be as impactful as the market had hoped. With Part 1 of the review now announced, we now replace it with SDR.

When we previously set ICAP as a most preferred stock, we expected higher volatiltiy to increase trading volumes and revenues. However, volatility has now increased so much that liquidity has also reduced. We now replace ICAP with Ashmore..

Catalyst and Thesis:

Aberdeen is closely associated with APAC and EM investment. We see this as one of the few growth areas for flows in 2012. We expect Aberdeen's Q1 statement in January to remind the market of the power of its revenue margin expansion and fund flow story.

Schroders continues to suffer management fee margin decline, and poor outlook for European retail fund flows. We expect FY11 results in early March to disappoint investor expectations.

We continue to believe in **Ashmore’s** long-term Emerging Markets structural story. Near term flow outlook is subdued, which may weigh against this stock in January when it releases its Q2 update, but we expect the stock to strengthen throughout 2012.

Intermediate Capital., Catalyst. 17 Jan 12, Q3 IMS. Thesis. We expect Q3 statement in January to reflect the slowdown in the private equity and debt markets and a subdued outlook for the year. We expect ICG to underperform other UK asset managers, given its higher risk exposure to difficult macro environment through its balance sheet investments.

Notes

Appendix A-1

Analyst Certification

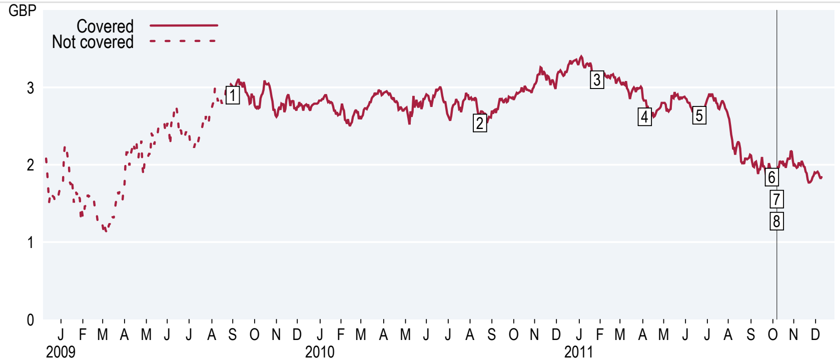
The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

3i Group Plc (III.L)

Ratings and Target Price History
Fundamental Research

Analyst: Nese Guner
Covered since April 1 2011



	Date	Rating	Target Price	Closing Price
1	1-Sep-09	*1M	*3.60	3.01
2	16-Aug-10	1M	*3.40	2.64
3	27-Jan-11	1M	*3.65	3.18
4	5-Apr-11	1M	*3.40	2.83
5	21-Jun-11	1M	*3.50	2.73
6	30-Sep-11	1M	*2.75	1.88
7	7-Oct-11	Stock rating system changed		
8	7-Oct-11	*1	2.75	1.90

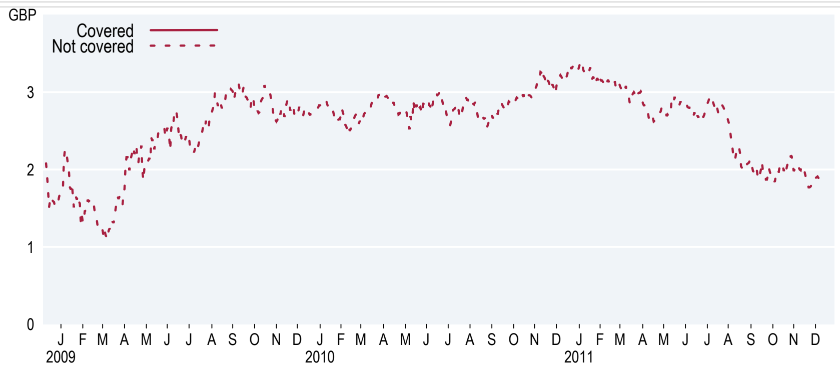
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

3i Group Plc (III.L)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Nese Guner
Covered since April 1 2011



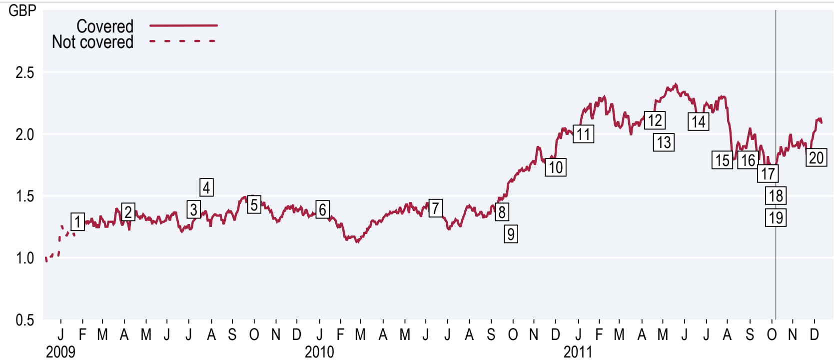
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Aberdeen Asset Management (ADN.L)

Ratings and Target Price History
Fundamental Research

Analyst: Haley A Tam, CFA
Covered since May 20 2010



	Date	Rating	Target Price	Closing Price
1	26-Jan-09	*1H	*1.50	1.23
2	7-Apr-09	*2H	*1.40	1.27
3	8-Jul-09	2H	*1.48	1.30
4	27-Jul-09	2H	*1.50	1.35
5	1-Oct-09	2H	*1.55	1.49
6	6-Jan-10	2H	*1.52	1.39
7	15-Jun-10	2H	*1.50	1.38
8	16-Sep-10	*2M	1.50	1.47
9	29-Sep-10	2M	*1.75	1.63
10	1-Dec-10	*1M	*2.20	1.85
11	10-Jan-11	1M	*2.40	2.19
12	20-Apr-11	1M	*2.50	2.21
13	3-May-11	1M	*2.60	2.30
14	21-Jun-11	1M	*2.50	2.16
15	25-Jul-11	1M	*2.60	2.29
16	30-Aug-11	1M	*2.30	1.97
17	27-Sep-11	1M	*2.20	1.82
18	7-Oct-11	Stock rating system changed		
19	7-Oct-11	*1	2.20	1.75
20	5-Dec-11	1	*2.45	2.11

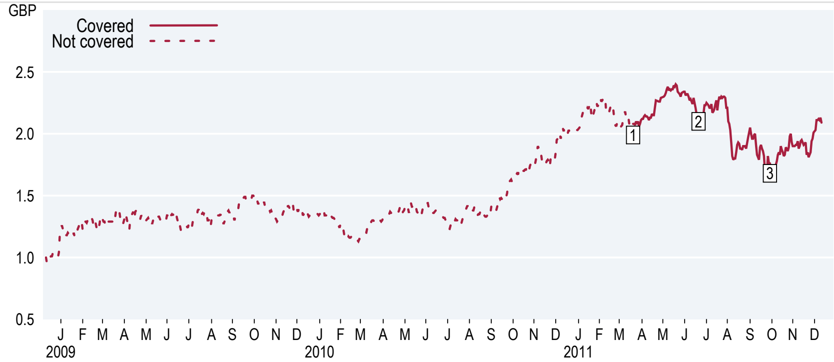
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Aberdeen Asset Management (ADN.L)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Haley A Tam, CFA
Covered since May 20 2010



	Date	Rating	Target Price	Closing Price
1	21-Mar-11	*ADD MP	-	2.08
2	21-Jun-11	*REM MP	-	2.16
3	29-Sep-11	*ADD MP	-	1.76

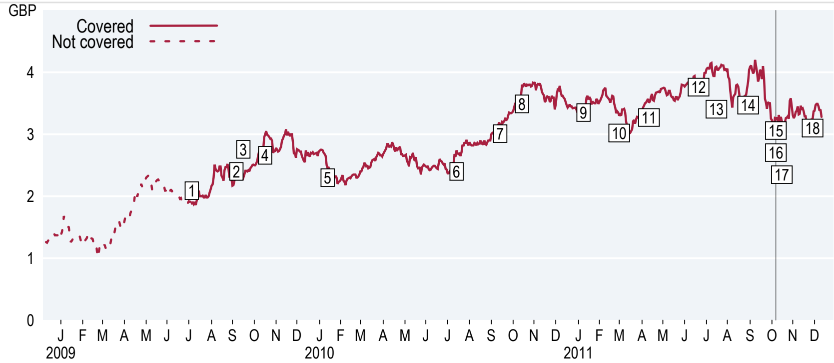
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Ashmore Group (ASHM.L)

Ratings and Target Price History
Fundamental Research

Analyst: Haley A Tam, CFA
Covered since May 20 2010



	Date	Rating	Target Price	Closing Price
1	6-Jul-09	*1M	*2.20	1.88
2	7-Sep-09	1M	*2.65	2.38
3	16-Sep-09	1M	*2.85	2.30
4	16-Oct-09	1M	*3.60	3.00
5	13-Jan-10	1M	*3.25	2.45
6	14-Jul-10	*2M	*3.00	2.74
7	14-Sep-10	2M	*3.40	3.14
8	14-Oct-10	2M	*4.00	3.80
9	10-Jan-11	2M	*3.65	3.40
10	1-Mar-11	2M	*3.40	3.30
11	12-Apr-11	2M	*3.50	3.51
12	21-Jun-11	2M	*3.85	3.84
13	15-Jul-11	2M	*4.00	4.09
14	30-Aug-11	*1M	4.00	3.85
15	7-Oct-11	Stock rating system changed		
16	7-Oct-11	*1	4.00	3.25
17	17-Oct-11	1	*3.70	3.21
18	29-Nov-11	1	*3.75	3.24

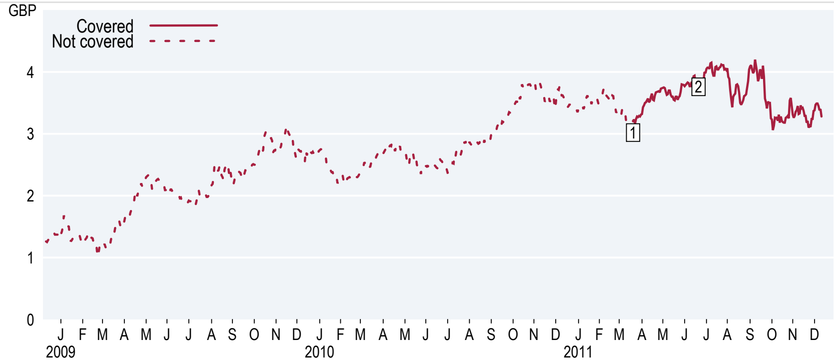
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Ashmore Group (ASHM.L)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Haley A Tam, CFA
Covered since May 20 2010



	Date	Rating	Target Price	Closing Price
1	21-Mar-11	*ADD LP	-	3.21
2	21-Jun-11	*REM LP	-	3.84

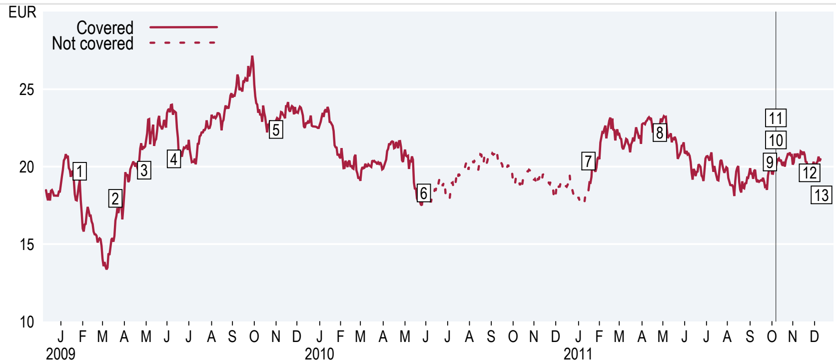
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

BME (BME.MC)

Ratings and Target Price History
Fundamental Research

Analyst: Nese Guner
Covered since January 17 2011



	Date	Rating	Target Price	Closing Price
1	28-Jan-09	*3M	*16.00	19.10
2	19-Mar-09	*2M	16.00	16.53
3	29-Apr-09	2M	*20.00	21.23
4	10-Jun-09	2M	*23.00	23.60
5	2-Nov-09	2M	*23.50	22.99
6	28-May-10	Coverage terminated		
7	16-Jan-11	*3M	*15.50	18.35
8	27-Apr-11	3M	*18.00	22.72
9	29-Sep-11	3M	*17.50	19.92
10	7-Oct-11	Stock rating system changed		
11	7-Oct-11	*3	17.50	20.00
12	24-Nov-11	3	*17.00	19.92
13	11-Dec-11	3	*18.00	20.48

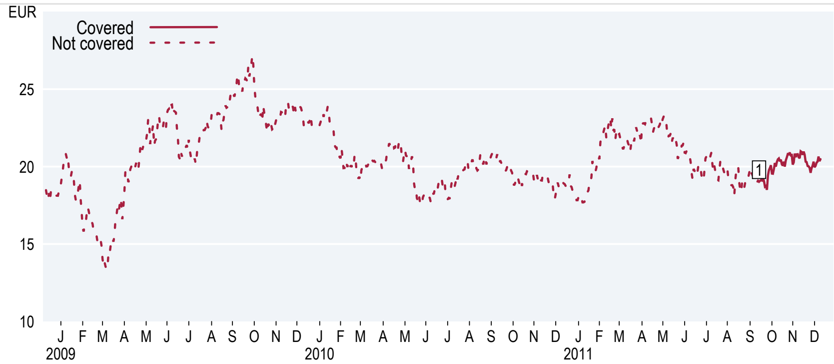
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

BME (BME.MC)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Nese Guner
Covered since January 17 2011



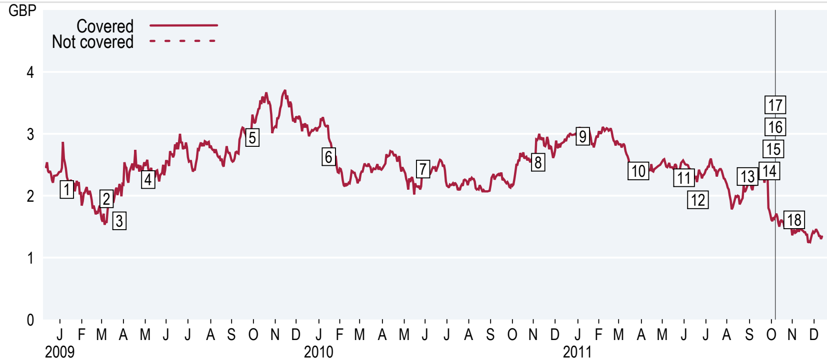
	Date	Rating	Target Price	Closing Price
1	14-Sep-11	*ADD LP	-	19.02

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Man Group PLC (EMG.L)
Ratings and Target Price History
Fundamental Research

Analyst: Haley A Tam, CFA
Covered since May 20 2010



	Date	Rating	Target Price	Closing Price
1	12-Jan-09	*3H	*2.00	2.30
2	9-Mar-09	*1H	2.00	1.56
3	26-Mar-09	1H	*2.50	2.19
4	6-May-09	*2H	2.50	2.44
5	30-Sep-09	2H	*3.50	3.31
6	15-Jan-10	2H	*3.20	2.93

	Date	Rating	Target Price	Closing Price
7	28-May-10	*1H	*2.85	2.33
8	8-Nov-10	1H	*3.30	2.93
9	10-Jan-11	1H	*3.50	3.05
10	29-Mar-11	1H	*2.85	2.46
11	1-Jun-11	1H	*2.90	2.54
12	21-Jun-11	1H	*2.70	2.31

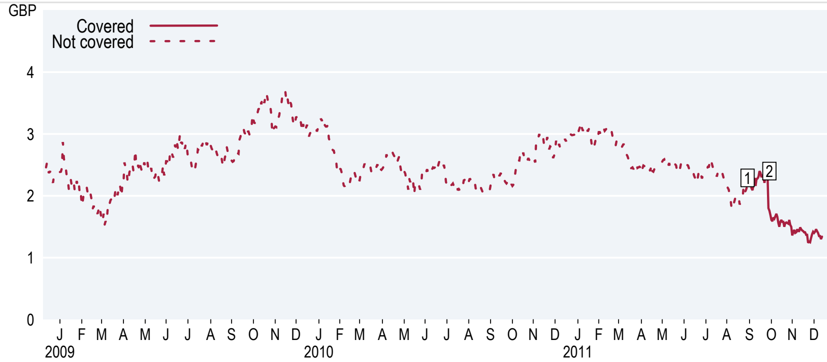
	Date	Rating	Target Price	Closing Price
13	30-Aug-11	1H	*2.50	2.17
14	29-Sep-11	*2H	*1.90	1.76
15	5-Oct-11	2H	*1.72	1.65
16	7-Oct-11	Stock rating system changed		
17	7-Oct-11	*2	1.72	1.67
18	3-Nov-11	2	*1.58	1.45

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Man Group PLC (EMG.L)
Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Haley A Tam, CFA
Covered since May 20 2010



	Date	Rating	Target Price	Closing Price
1	30-Aug-11	*ADD MP	-	2.17

	Date	Rating	Target Price	Closing Price
2	29-Sep-11	*REM MP	-	1.76

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Hellenic Exchange Holding SA (EXCr.AT)
Ratings and Target Price History
Fundamental Research

Analyst: Lambros Papadopoulos

	Date	Rating	Target Price	Closing Price
1	29-Jan-09	1H	*5.67	4.33
2	7-Jul-09	1H	*8.60	7.16
3	5-Nov-09	*1M	*9.92	9.36

	Date	Rating	Target Price	Closing Price
4	9-Mar-10	*2H	*7.09	6.66
5	18-May-10	2H	*5.39	5.04
6	26-Jul-10	2H	*5.20	5.20

	Date	Rating	Target Price	Closing Price
7	10-Mar-11	2H	*5.81	5.91
8	7-Oct-11	Stock rating system changed		
9	7-Oct-11	*2	-	2.91

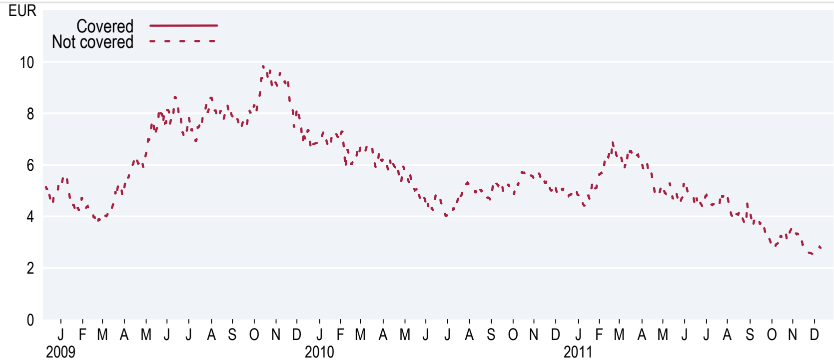
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Hellenic Exchange Holding SA (EXCr.AT)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Lambros Papadopoulos



* Indicates change

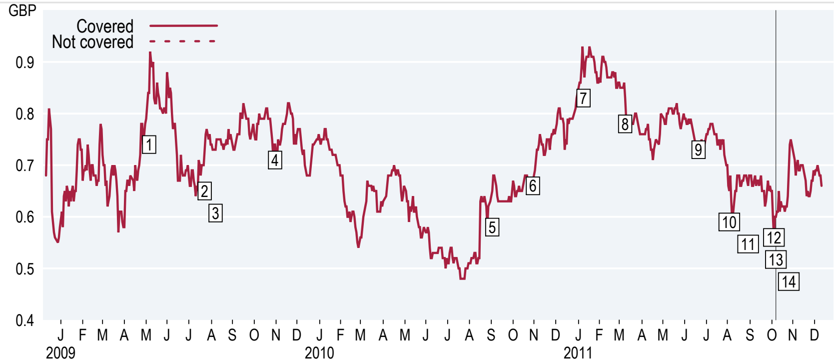
Rating/target price changes above reflect Eastern Standard Time

F&C Asset Management Plc (FCAM.L)

Ratings and Target Price History
Fundamental Research

Analyst: Haley A Tam, CFA

Covered since September 2 2010



	Date	Rating	Target Price	Closing Price
1	6-May-09	2M	*0.88	0.84
2	23-Jul-09	2M	*0.77	0.73
3	7-Aug-09	2M	*0.76	0.73
4	30-Oct-09	2M	*0.79	0.74
5	2-Sep-10	*1H	*0.75	0.65

	Date	Rating	Target Price	Closing Price
6	29-Oct-10	1H	*0.85	0.67
7	10-Jan-11	*2H	*0.95	0.89
8	9-Mar-11	2H	*0.90	0.83
9	21-Jun-11	2H	*0.77	0.74
10	3-Aug-11	2H	*0.74	0.65

	Date	Rating	Target Price	Closing Price
11	30-Aug-11	2H	*0.66	0.66
12	5-Oct-11	2H	*0.60	0.56
13	7-Oct-11	Stock rating system changed		
14	26-Oct-11	*2	-	0.69

* Indicates change

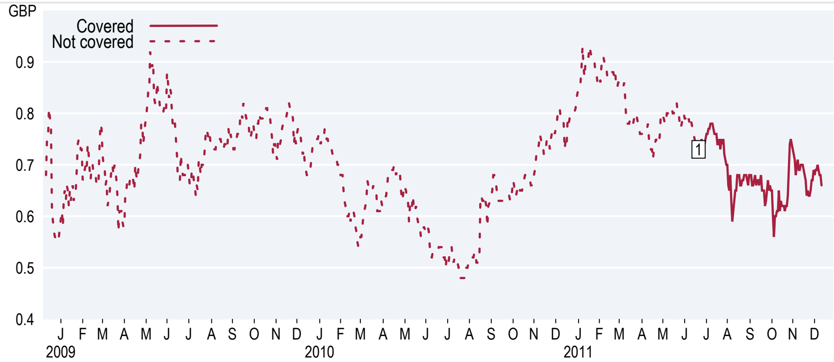
Rating/target price changes above reflect Eastern Standard Time

F&C Asset Management Plc (FCAM.L)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Haley A Tam, CFA

Covered since September 2 2010



	Date	Rating	Target Price	Closing Price
1	21-Jun-11	*ADD LP	-	0.74

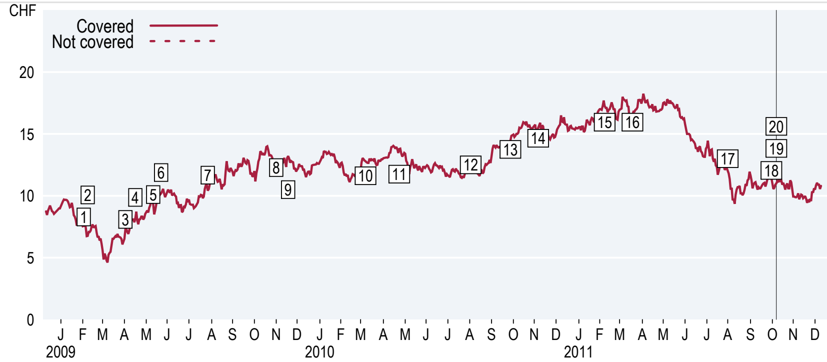
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

GAM Holding Ltd (GAMH.S)

Ratings and Target Price History
Fundamental Research

Analyst: Haley A Tam, CFA
Covered since September 29 2011



	Date	Rating	Target Price	Closing Price
1	3-Feb-09	1H	*9.44	7.57
2	9-Feb-09	1H	*8.09	6.76
3	2-Apr-09	1H	*8.99	7.29
4	16-Apr-09	1H	*10.11	8.18
5	12-May-09	1H	*11.24	9.33
6	22-May-09	1H	*12.14	10.20
7	28-Jul-09	1H	*13.71	10.42

	Date	Rating	Target Price	Closing Price
8	1-Nov-09	*2H	*13.50	12.57
9	18-Nov-09	2H	*14.20	13.21
10	8-Mar-10	2H	*13.00	12.79
11	23-Apr-10	2H	*15.00	13.78
12	3-Aug-10	2H	*14.00	12.40
13	28-Sep-10	2H	*15.00	14.45
14	5-Nov-10	2H	*17.00	15.50

	Date	Rating	Target Price	Closing Price
15	8-Feb-11	2H	*19.00	17.25
16	18-Mar-11	2H	*17.50	16.55
17	1-Aug-11	2H	*14.20	12.25
18	30-Sep-11	2H	*11.50	11.45
19	7-Oct-11	Stock rating system changed		
20	7-Oct-11	*2	11.50	11.00

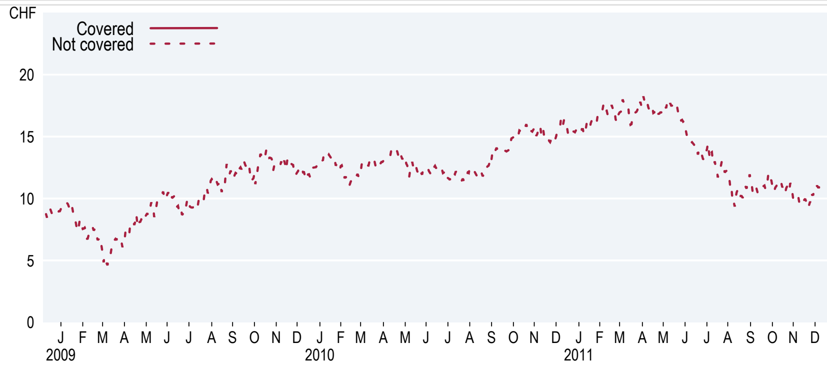
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

GAM Holding Ltd (GAMH.S)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Haley A Tam, CFA
Covered since September 29 2011



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Gottex Fund Management Holdings Ltd (GFMN.S)

Ratings and Target Price History
Fundamental Research

Analyst: Haley A Tam, CFA
Covered since September 29 2011

	Date	Rating	Target Price	Closing Price
1	23-Jan-09	2S	*3.20	3.20
2	25-Mar-09	2S	*6.00	5.69
3	16-Jun-09	*2H	*7.50	7.50
4	3-Sep-09	2H	*11.30	10.70
5	25-Mar-10	2H	*10.50	9.30

	Date	Rating	Target Price	Closing Price
6	23-Apr-10	2H	*9.30	8.10
7	23-Jul-10	2H	*6.00	5.56
8	21-Oct-10	2H	*5.40	5.04
9	8-Feb-11	2H	*7.70	7.20
10	24-Mar-11	2H	*7.00	6.80

	Date	Rating	Target Price	Closing Price
11	20-Jul-11	2H	*5.70	5.10
12	13-Sep-11	2H	*4.20	3.85
13	7-Oct-11	Stock rating system changed		
14	7-Oct-11	*2	-	3.59

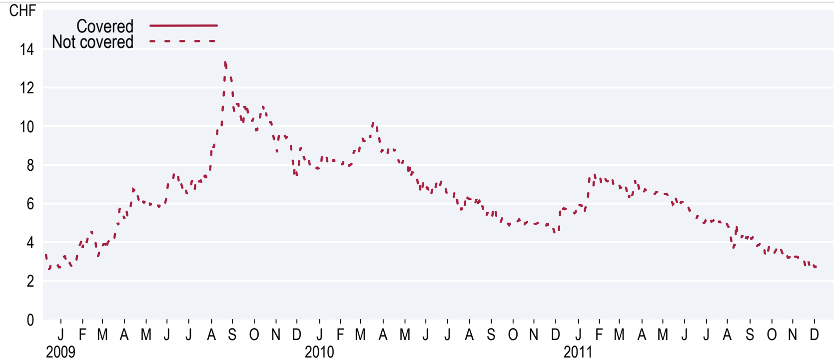
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Gottex Fund Management Holdings Ltd (GFMN.S)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Haley A Tam, CFA
Covered since September 29 2011



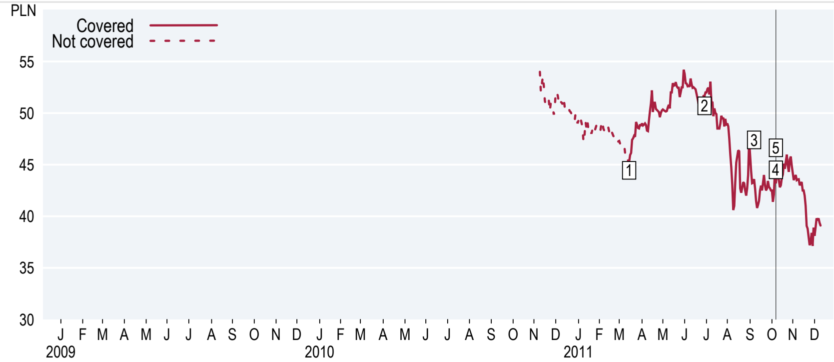
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

GPW (GPW.WA)

Ratings and Target Price History
Fundamental Research

Analyst: Andrzej Powierza
Covered since March 15 2011



	Date	Rating	Target Price	Closing Price
1	15-Mar-11	*2M	*44.90	45.27
2	29-Jun-11	2M	*49.50	51.65
3	7-Sep-11	2M	*44.50	43.60
4	7-Oct-11	Stock rating system changed		
5	7-Oct-11	*2	44.50	43.20

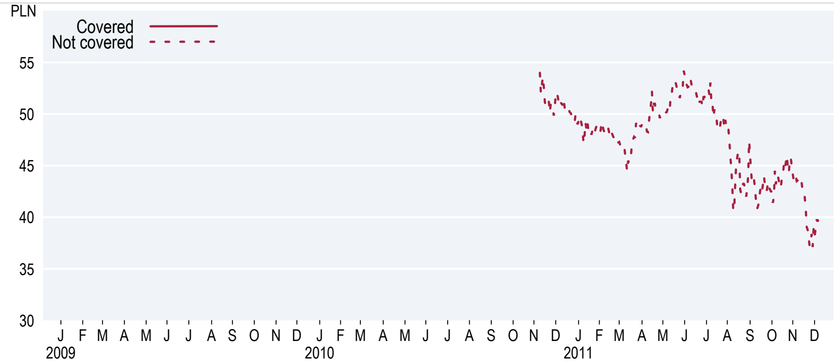
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

GPW (GPW.WA)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Andrzej Powierza
Covered since March 15 2011



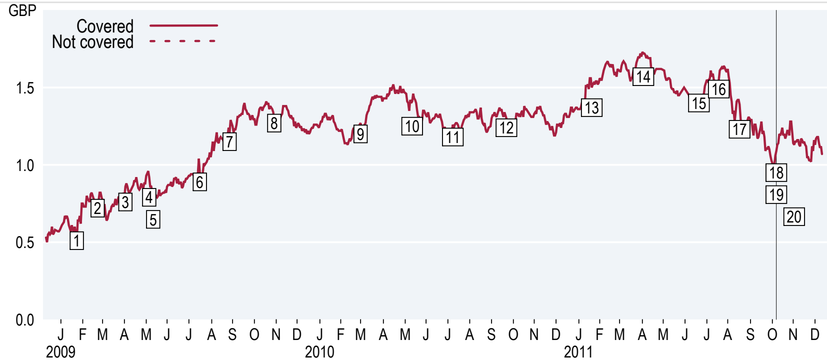
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Henderson Group Plc (HGGH.L)

Ratings and Target Price History
Fundamental Research

Analyst: Haley A Tam, CFA
Covered since May 11 2010



	Date	Rating	Target Price	Closing Price
1	23-Jan-09	2M	*0.55	0.51
2	23-Feb-09	2M	*0.70	0.72
3	2-Apr-09	2M	*0.80	0.86
4	6-May-09	*3M	*0.82	0.92
5	12-May-09	3M	*0.75	0.83
6	16-Jul-09	3M	*0.85	0.95
7	27-Aug-09	*2M	*1.31	1.21

	Date	Rating	Target Price	Closing Price
8	29-Oct-09	2M	*1.40	1.29
9	28-Feb-10	*1M	*1.53	1.26
10	12-May-10	1M	*1.58	1.41
11	8-Jul-10	1M	*1.50	1.26
12	22-Sep-10	*2M	*1.38	1.30
13	20-Jan-11	2M	*1.70	1.50
14	4-Apr-11	2M	*1.76	1.72

	Date	Rating	Target Price	Closing Price
15	21-Jun-11	*1M	*1.66	1.42
16	19-Jul-11	1M	*1.75	1.55
17	17-Aug-11	1M	*1.60	1.39
18	7-Oct-11	Stock rating system changed		
19	7-Oct-11	*1	1.60	1.09
20	2-Nov-11	1	*1.55	1.13

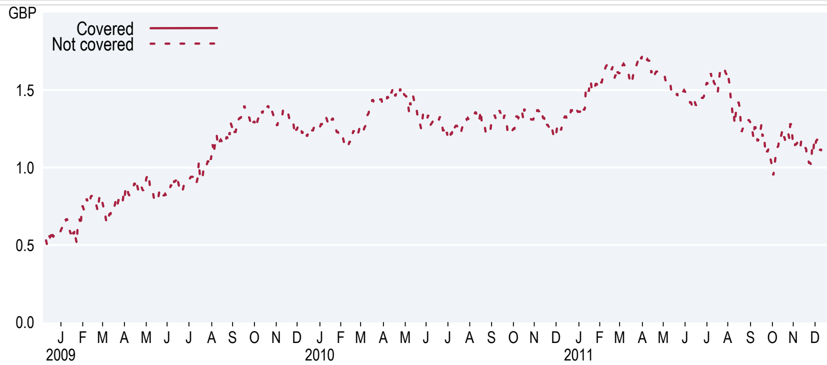
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Henderson Group Plc (HGGH.L)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Haley A Tam, CFA
Covered since May 11 2010



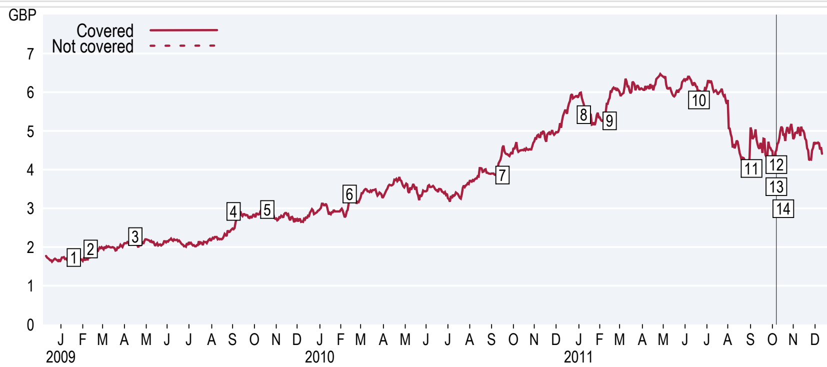
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Hargreaves Lansdown PLC (HRGV.L)

Ratings and Target Price History
Fundamental Research

Analyst: Haley A Tam, CFA
Covered since May 20 2010



	Date	Rating	Target Price	Closing Price
1	20-Jan-09	*1M	*1.90	1.66
2	12-Feb-09	1M	*2.00	1.74
3	16-Apr-09	*2M	*2.25	2.27
4	2-Sep-09	2M	*2.55	2.46
5	20-Oct-09	2M	*3.05	2.93

	Date	Rating	Target Price	Closing Price
6	12-Feb-10	2M	*3.20	3.20
7	16-Sep-10	*1M	*4.85	4.57
8	10-Jan-11	*2H	*6.00	5.68
9	15-Feb-11	*1H	*6.85	5.85
10	21-Jun-11	1H	*7.00	6.04

	Date	Rating	Target Price	Closing Price
11	2-Sep-11	1H	*5.90	5.00
12	7-Oct-11	Stock rating system changed		
13	7-Oct-11	*1	5.90	4.50
14	18-Oct-11	1	*5.70	4.88

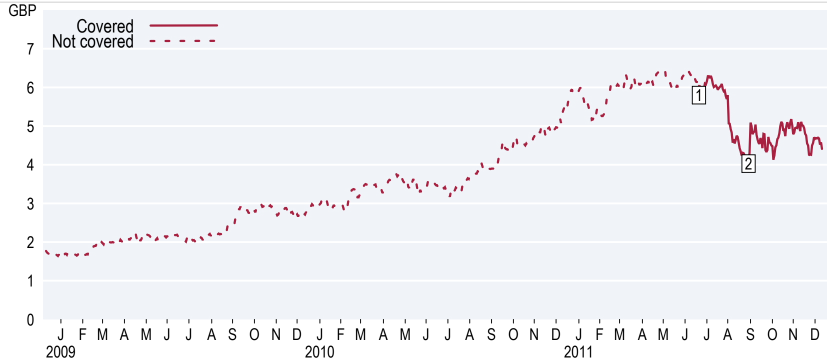
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Hargreaves Lansdown PLC (HRGV.L)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Haley A Tam, CFA
Covered since May 20 2010



	Date	Rating	Target Price	Closing Price
1	21-Jun-11	*ADD MP	-	6.04

	Date	Rating	Target Price	Closing Price
2	30-Aug-11	*REM MP	-	4.07

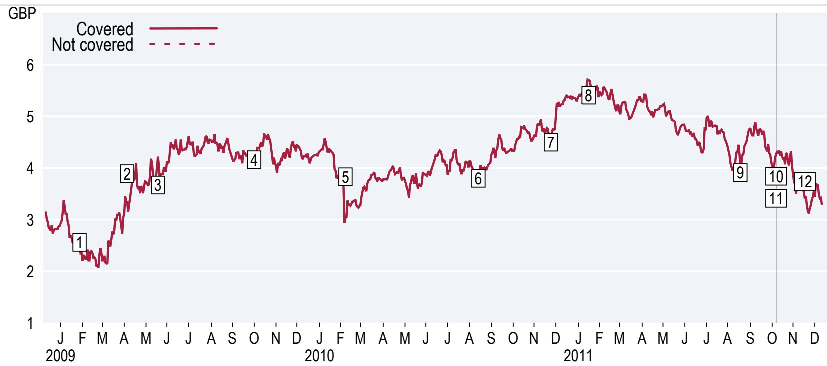
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

ICAP PLC (IAP.L)

Ratings and Target Price History
Fundamental Research

Analyst: Nese Guner
Covered since September 30 2010



	Date	Rating	Target Price	Closing Price
1	28-Jan-09	1M	*3.05	2.51
2	6-Apr-09	1M	*3.85	3.34
3	19-May-09	1M	*5.00	4.22
4	1-Oct-09	1M	*4.90	4.17

	Date	Rating	Target Price	Closing Price
5	8-Feb-10	1M	*4.00	3.04
6	13-Aug-10	1M	*4.40	3.90
7	24-Nov-10	1M	*5.50	4.58
8	16-Jan-11	1M	*6.25	5.71

	Date	Rating	Target Price	Closing Price
9	18-Aug-11	1M	*6.05	4.02
10	7-Oct-11	Stock rating system changed		
11	7-Oct-11	*1	6.05	4.26
12	17-Nov-11	1	*5.60	3.41

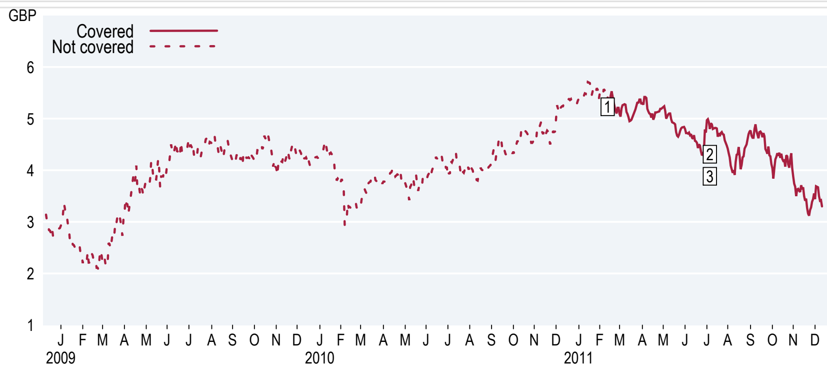
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

ICAP PLC (IAP.L)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Nese Guner
Covered since September 30 2010



	Date	Rating	Target Price	Closing Price
1	11-Feb-11	*ADD MP	-	5.41

	Date	Rating	Target Price	Closing Price
2	6-Jul-11	*REM MP	-	4.80

	Date	Rating	Target Price	Closing Price
3	6-Jul-11	*ADD MP	-	4.80

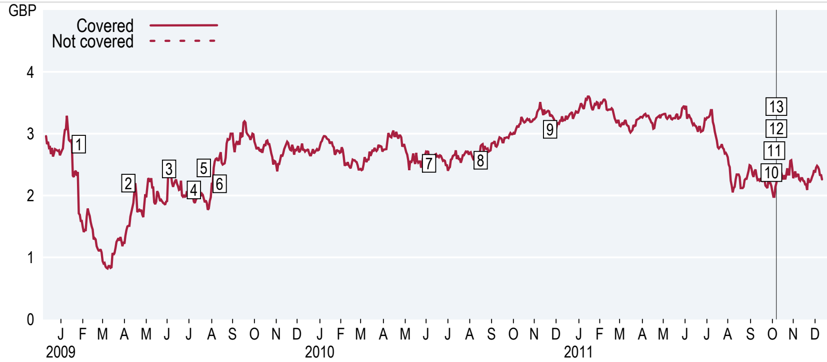
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Intermediate Capital Group (ICP.L)

Ratings and Target Price History
Fundamental Research

Analyst: Nese Guner
Covered since September 30 2011



	Date	Rating	Target Price	Closing Price
1	27-Jan-09	2H	*2.07	1.71
2	7-Apr-09	2H	*1.45	1.51
3	3-Jun-09	2H	*2.19	2.43
4	8-Jul-09	2H	*1.86	1.90
5	22-Jul-09	2H	*1.89	1.95
6	13-Aug-09	2H	*2.98	2.64
7	4-Jun-10	2H	*3.00	2.61
8	17-Aug-10	2H	*3.10	2.80
9	23-Nov-10	2H	*3.65	3.28
10	30-Sep-11	2H	*2.20	2.15
11	5-Oct-11	2H	*2.00	1.98
12	7-Oct-11	Stock rating system changed		
13	7-Oct-11	*2	2.00	2.20

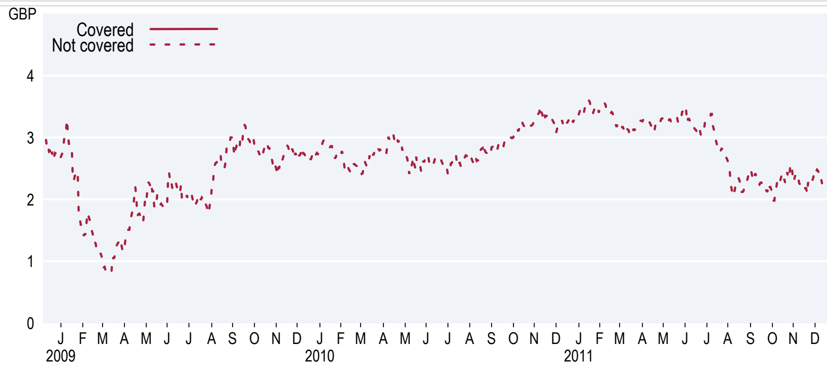
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Intermediate Capital Group (ICP.L)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Nese Guner
Covered since September 30 2011



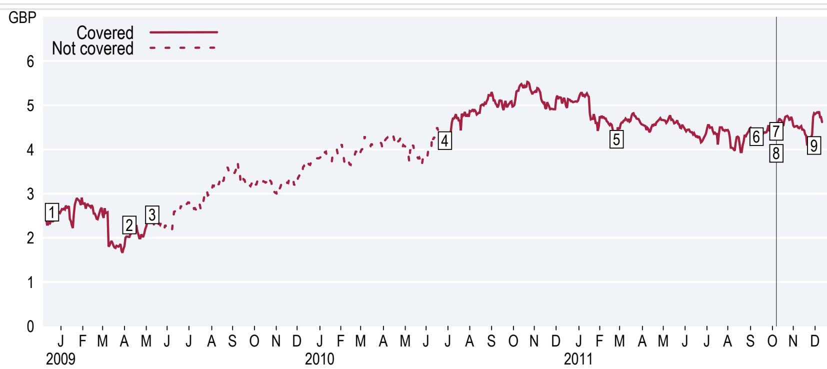
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

IG Group (IGG.L)

Ratings and Target Price History
Fundamental Research

Analyst: Hugo Mills
Covered since June 28 2010



	Date	Rating	Target Price	Closing Price
1	19-Dec-08	1M	*3.00	2.40
2	8-Apr-09	1M	*2.50	2.02
3	11-May-09	Coverage terminated		
4	28-Jun-10	*2H	*4.85	4.36
5	24-Feb-11	*1H	*5.05	4.23
6	9-Sep-11	1H	*5.20	4.32
7	7-Oct-11	Stock rating system changed		
8	7-Oct-11	*1	5.20	4.51
9	30-Nov-11	1	*5.30	4.82

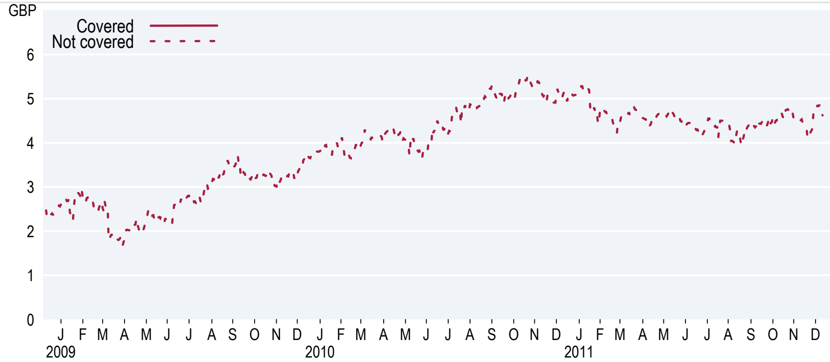
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

IG Group (IGG.L)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Hugo Mills
Covered since June 28 2010



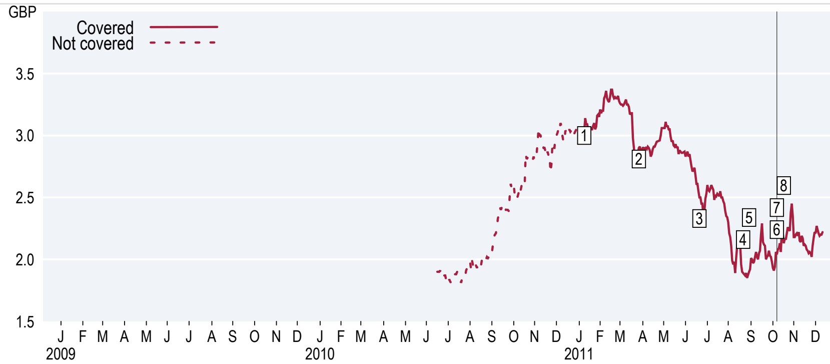
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Jupiter Fund Management (JUP.L)

Ratings and Target Price History
Fundamental Research

Analyst: Haley A Tam, CFA
Covered since January 10 2011



	Date	Rating	Target Price	Closing Price
1	10-Jan-11	*1H	*3.50	3.04
2	27-Mar-11	*1M	*3.25	2.86
3	21-Jun-11	1M	*3.00	2.50
4	22-Aug-11	1M	*2.40	1.89
5	30-Aug-11	1M	*2.25	1.90
6	7-Oct-11	Stock rating system changed		
7	7-Oct-11	*1	2.25	2.04
8	18-Oct-11	1	*2.40	2.13

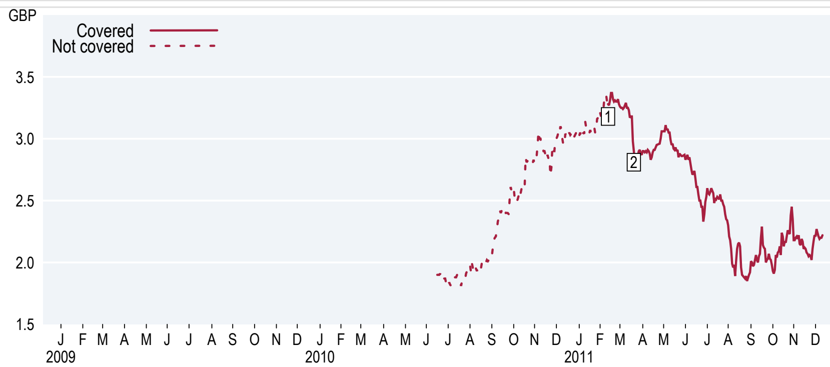
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Jupiter Fund Management (JUP.L)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Haley A Tam, CFA
Covered since January 10 2011



	Date	Rating	Target Price	Closing Price
1	11-Feb-11	*ADD MP	-	3.28
2	21-Mar-11	*REM MP	-	2.90

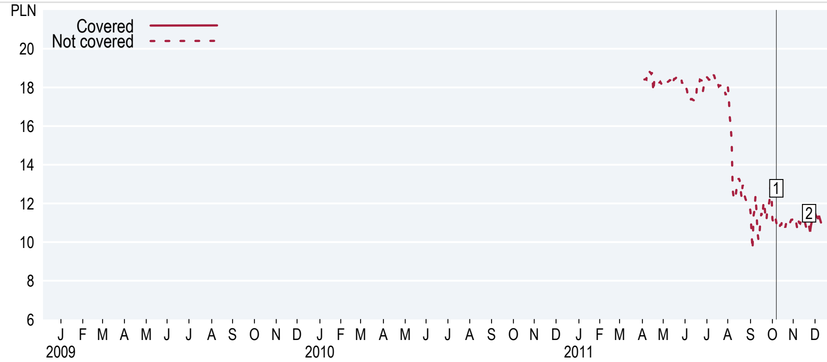
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Open Finance (OPFP.WA)

Ratings and Target Price History
Fundamental Research

Analyst: Andrzej Powierza
Covered since November 24 2011



	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	23-Nov-11	*1H	*18.40	10.80

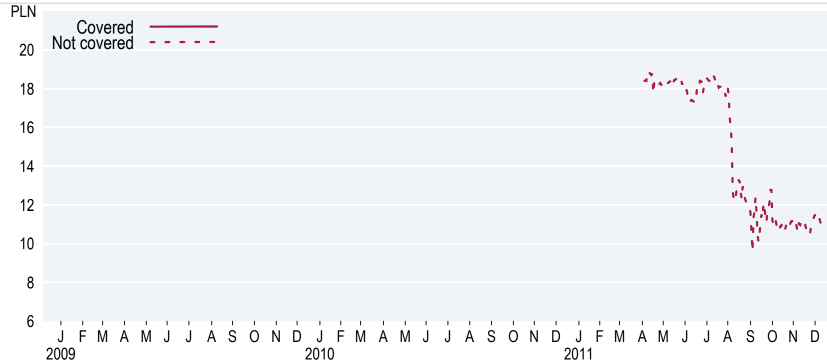
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Open Finance (OPFP.WA)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Andrzej Powierza
Covered since November 24 2011



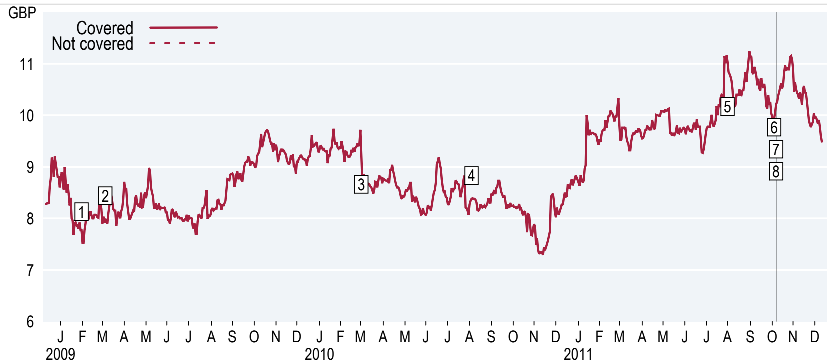
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Provident Financial PLC (PFG.L)

Ratings and Target Price History
Fundamental Research

Analyst: Hugo Mills
Covered since October 6 2009



	Date	Rating	Target Price	Closing Price
1	30-Jan-09	*3M	*6.75	7.77
2	5-Mar-09	3M	*7.00	7.91
3	2-Mar-10	3M	*8.00	9.20
4	4-Aug-10	3M	*7.70	8.38
5	1-Aug-11	3M	*10.10	11.04
6	5-Oct-11	3M	*9.20	9.94
7	7-Oct-11	Stock rating system changed		
8	7-Oct-11	*3	9.20	10.22

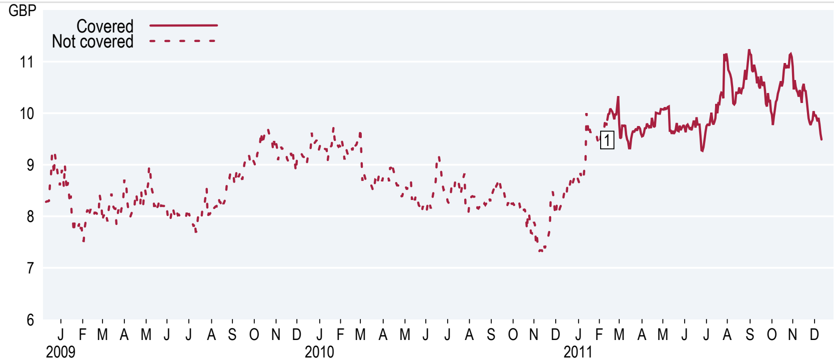
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Provident Financial PLC (PFG.L)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Hugo Mills
Covered since October 6 2009



	Date	Rating	Target Price	Closing Price
1	11-Feb-11	*ADD LP	-	9.87

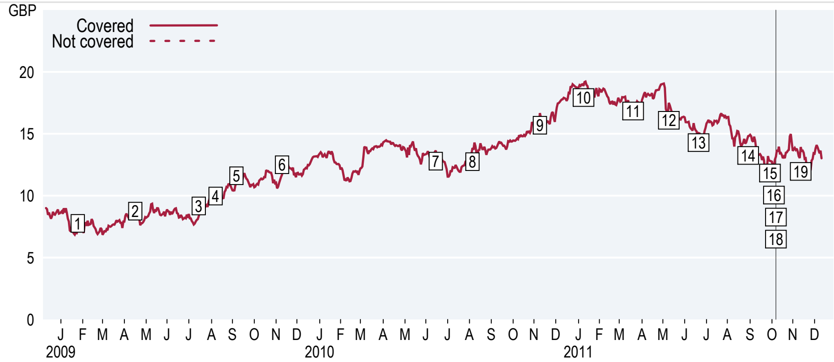
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Schroders PLC (SDR.L)

Ratings and Target Price History
Fundamental Research

Analyst: Haley A Tam, CFA
Covered since May 20 2010



	Date	Rating	Target Price	Closing Price
1	26-Jan-09	3M	*6.50	7.25
2	16-Apr-09	3M	*7.40	8.51
3	15-Jul-09	*1M	*9.40	8.34
4	7-Aug-09	1M	*11.15	9.91
5	7-Sep-09	1M	*12.30	10.95
6	10-Nov-09	1M	*13.65	11.70
7	15-Jun-10	*3M	*12.00	13.65
8	5-Aug-10	3M	*12.30	13.85
9	9-Nov-10	*2M	*16.60	16.67
10	10-Jan-11	2M	*19.60	18.87
11	21-Mar-11	*1M	*20.00	17.36
12	10-May-11	*2M	*18.50	17.50
13	21-Jun-11	*1M	*17.10	15.06
14	30-Aug-11	*2M	*15.30	14.81
15	29-Sep-11	2M	*14.00	12.81
16	5-Oct-11	2M	*12.30	12.30
17	7-Oct-11	Stock rating system changed		
18	7-Oct-11	*2	12.30	13.15
19	11-Nov-11	2	*13.10	13.93

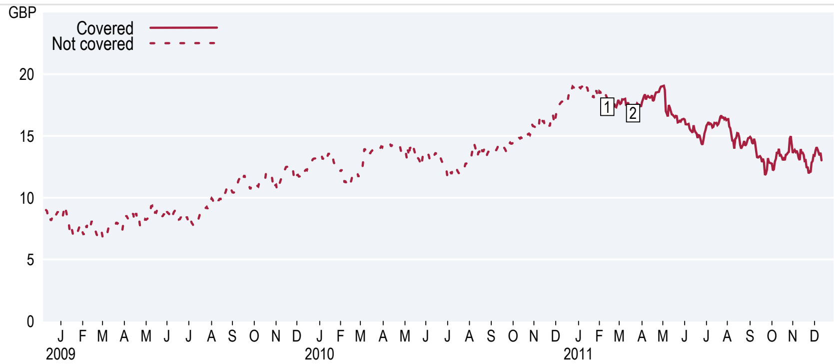
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Schroders PLC (SDR.L)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Haley A Tam, CFA
Covered since May 20 2010



	Date	Rating	Target Price	Closing Price
1	11-Feb-11	*ADD LP	-	18.02
2	21-Mar-11	*REM LP	-	17.36

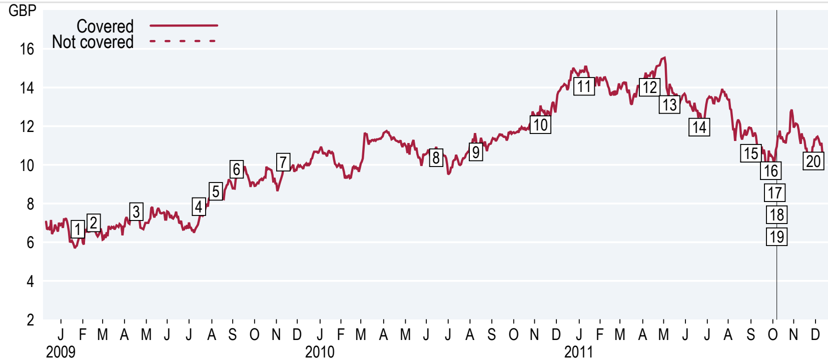
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Schroders PLC (SDRt.L)

Ratings and Target Price History
Fundamental Research

Analyst: Haley A Tam, CFA
Covered since May 20 2010



	Date	Rating	Target Price	Closing Price
1	26-Jan-09	3M	*5.40	6.03
2	17-Feb-09	3M	*5.60	6.68
3	17-Apr-09	3M	*6.70	7.58
4	15-Jul-09	*1M	*8.40	7.13
5	7-Aug-09	1M	*9.50	8.47
6	7-Sep-09	1M	*10.50	9.35
7	11-Nov-09	1M	*11.35	9.80
8	15-Jun-10	*3M	*9.60	10.93
9	10-Aug-10	3M	*9.85	11.35
10	9-Nov-10	*2M	*13.30	13.07
11	10-Jan-11	2M	*15.70	14.78
12	12-Apr-11	*1M	15.70	14.60
13	10-May-11	*2M	*15.20	14.19
14	21-Jun-11	*1M	*14.30	12.66
15	1-Sep-11	*2M	*12.70	11.90
16	29-Sep-11	2M	*11.60	10.51
17	5-Oct-11	2M	*10.20	10.26
18	7-Oct-11	Stock rating system changed		
19	7-Oct-11	*2	10.20	10.95
20	29-Nov-11	2	*11.10	10.97

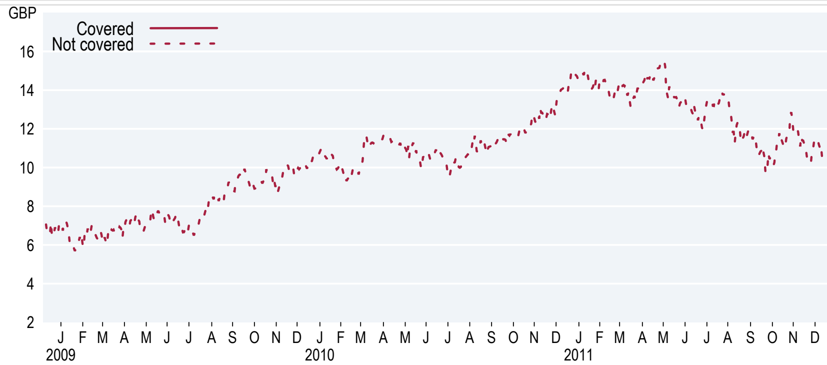
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Schroders PLC (SDRt.L)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Haley A Tam, CFA
Covered since May 20 2010



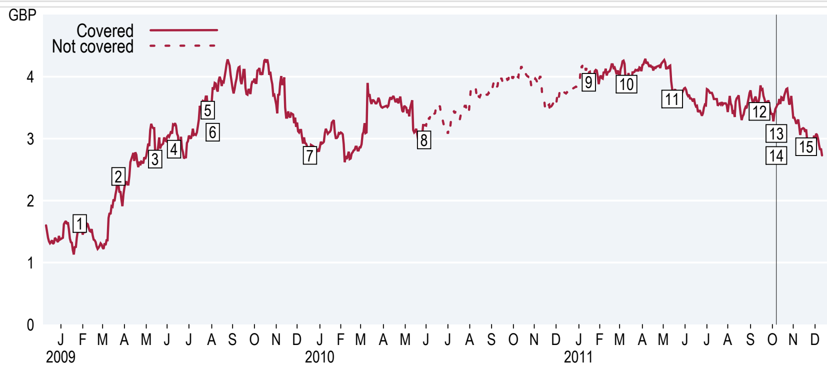
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Tullet Prebon (TLPR.L)

Ratings and Target Price History
Fundamental Research

Analyst: Nese Guner
Covered since January 17 2011



	Date	Rating	Target Price	Closing Price
1	28-Jan-09	1M	*2.00	1.55
2	24-Mar-09	*2M	*2.40	2.25
3	14-May-09	2M	*2.70	2.78
4	10-Jun-09	2M	*3.30	3.22
5	28-Jul-09	2M	*3.60	3.48
6	4-Aug-09	2M	*4.00	3.83
7	18-Dec-09	2M	*2.95	2.75
8	28-May-10	Coverage terminated		
9	16-Jan-11	2M	*4.50	4.10
10	10-Mar-11	2M	*4.30	3.98
11	13-May-11	2M	*4.20	3.80
12	14-Sep-11	*1M	*4.50	3.68
13	7-Oct-11	Stock rating system changed		
14	7-Oct-11	*1	4.50	3.51
15	18-Nov-11	1	*4.20	3.15

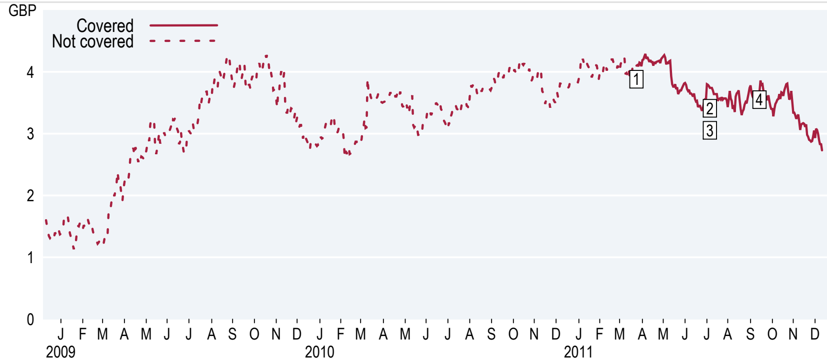
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Tullet Prebon (TLPR.L)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Nese Guner
Covered since January 17 2011



	Date	Rating	Target Price	Closing Price
1	24-Mar-11	*ADD LP	-	4.10
2	6-Jul-11	*REM LP	-	3.74
3	6-Jul-11	*ADD LP	-	3.74
4	14-Sep-11	*REM LP	-	3.68

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

DMBH has received compensation from GPW for providing market maker services in the past 12 months. DMBH is a market maker in the publicly traded equity securities of GPW. DMBH rating distribution versus Investment Banking service provision in the past 12 months as at 30 September 2011 is as follows: Buy (1) representing 56% of the DMBH coverage 0% of which are IB clients, Hold (2) representing 20% of the DMBH coverage 0% of which are IB clients, Sell (3) representing 24% of the DMBH coverage 0% of which are IB clients.

DMBH rating distribution versus Investment Banking service provision in the past 12 months as at 30 September 2011 is as follows: Buy (1) representing 56% of the DMBH coverage 0% of which are IB clients, Hold (2) representing 20% of the DMBH coverage 0% of which are IB clients, Sell (3) representing 24% of the DMBH coverage 0% of which are IB clients.

An employee of Citigroup Global Markets or its affiliates is on the Advisory Panel of Schroders.

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BEST IDEAS UNIVERSE: The best ideas universe from which Ashmore Group (covered by Haley A Tam, CFA) were chosen comprises: Henderson Group Plc (HGGH.L, £1.03), Aberdeen Asset Management (ADN.L, £1.98), Ashmore Group (ASHM.L, £3.12), Hargreaves Lansdown PLC (HRGV.L, £4.21), Man Group PLC (EMG.L, US$1.3), Schroders PLC (SDR.L, £12.66), Schroders PLC (SDRt.L, £10.25), F&C Asset Management Plc (FCAM.L, £0.65), Jupiter Fund Management (JUP.L, £2.25), BME (BME.MC, €20.8), ICAP PLC (IAP.L, £3.22), Tullet Prebon (TLPR.L, £2.67), 3i Group Plc (III.L, £1.75), Gottex Fund Management Holdings Ltd (GFMN.S, US$2.79), GAM Holding Ltd (GAMH.S, SFr9.98) and Intermediate Capital Group (ICP.L, £2.2). All prices as of 14 Dec 2011.

BEST IDEAS UNIVERSE: The best ideas universe from which Aberdeen Asset Management (covered by Haley A Tam, CFA), F&C Asset Management Plc (covered by Haley A Tam, CFA), BME (covered by Nese Guner), ICAP PLC (covered by Nese Guner) were chosen comprises: Henderson Group Plc (HGGH.L, £1.03), Aberdeen Asset Management (ADN.L, £1.98), Ashmore Group (ASHM.L, £3.12), Hargreaves Lansdown PLC (HRGV.L, £4.21), Man Group PLC (EMG.L, US$1.3), Schroders PLC (SDR.L, £12.66), Schroders PLC (SDRt.L, £10.25), F&C Asset Management Plc (FCAM.L, £0.65), Jupiter Fund Management (JUP.L, £2.25), BME (BME.MC, €20.8), ICAP PLC (IAP.L, £3.22), Tullet Prebon (TLPR.L, £2.67), 3i Group Plc (III.L, £1.75), Gottex Fund Management Holdings Ltd (GFMN.S, US$2.79), GAM Holding Ltd (GAMH.S, SFr9.98) and Intermediate Capital Group (ICP.L, £2.2). All prices as of 14 Dec 2011.

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Citigroup Global Markets Inc. or an affiliate received compensation in the past 12 months from Henderson Group Plc.

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For important disclosures (including copies of historical disclosures) regarding the companies that are the subject of this Citi Investment Research & Analysis product ("the Product"), please contact Citi Investment Research & Analysis, 388 Greenwich Street, 28th Floor, New York, NY, 10013, Attention: Legal/Compliance [E6WYB6412478]. In addition, the same important disclosures, with the exception of the Valuation and Risk assessments and historical disclosures, are contained on the Firm's disclosure website at www.citigroupgeo.com. Valuation and Risk assessments can be found in the text of the most recent research note/report regarding the subject company. Historical disclosures (for up to the past three years) will be provided upon request.

Citi Investment Research & Analysis Ratings Distribution

	12 Month Rating			*Relative Rating*		
Data current as of 9 Oct 2011	**Buy**	**Hold**	**Sell**	**Buy**	**Hold**	**Sell**
Citi Investment Research & Analysis Global Fundamental Coverage	59%	34%	7%	10%	79%	10%
% of companies in each rating category that are investment banking clients	45%	42%	37%	50%	43%	46%

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Risk rating takes into account both price volatility and fundamental criteria. Stocks will either have no risk rating or a High risk rating assigned.
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Relative three-month ratings: CIRA may also assign a three-month relative call (or rating) to a stock to highlight expected out-performance (most preferred) or under-performance (least preferred) versus the geographic and industry sector over a 3 month period. The relative call may highlight a specific near-term catalyst or event impacting the company or the market that is anticipated to have a short-term price impact on the equity securities of the company. Absent any specific catalyst the analyst(s) will indicate the most and least preferred stocks in the universe of stocks under consideration, explaining the basis for this short-term view. This three-month view may be different from and does not affect a stock's fundamental equity rating, which reflects a longer-term total absolute return expectation. For purposes of NASD/NYSE ratings-distribution-disclosure rules, most preferred calls correspond to a buy recommendation and least preferred calls correspond to a sell recommendation. Any stock not assigned to a most preferred or least preferred call is considered non-relative-rated (NRR). For purposes of NASD/NYSE ratings-distribution-disclosure rules we correspond NRR to Hold in our ratings distribution table for our 3-month relative rating system. However, we reiterate that we do not consider NRR to be a recommendation.

Prior to October 8, 2011, the firm's stock recommendation system included a risk rating and an investment rating. **Risk ratings,** which took into account both price volatility and fundamental criteria, were: Low (L), Medium (M), High (H), and Speculative (S). **Investment Ratings** of Buy, Hold and Sell were a function of CIRA's expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating. Additionally, analysts could have placed covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and/or trading in the company's securities (e.g. trading suspension). Stocks placed "Under Review" were monitored daily by management and as practically possible, the analyst published a note re-establishing a rating and investment thesis. For securities in developed markets (US, UK, Europe, Japan, and Australia/New Zealand), investment ratings were:Buy (1) (expected total return of 10% or more for Low-Risk stocks, 15% or more for Medium-Risk stocks, 20% or more for High-Risk stocks, and 35% or more for Speculative stocks); Hold (2) (0%-10% for Low-Risk stocks, 0%-15% for Medium-Risk stocks, 0%-20% for High-Risk stocks, and 0%-35% for Speculative stocks); and Sell (3) (negative total return). For securities in emerging markets (Asia Pacific, Emerging Europe/Middle East/Africa, and Latin America), investment ratings were:Buy (1) (expected total return of 15% or more for Low-Risk stocks, 20% or more for Medium-Risk stocks, 30% or more for High-Risk stocks, and 40% or more for Speculative stocks); Hold (2) (5%-15% for Low-Risk stocks, 10%-20% for Medium-Risk stocks, 15%-30% for High-Risk stocks, and 20%-40% for Speculative stocks); and Sell (3) (5% or less for Low-Risk stocks, 10% or less for Medium-Risk stocks, 15% or less for High-Risk stocks, and 20% or less for Speculative stocks).

Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

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Citigroup Global Markets Ltd	Haley A Tam, CFA; Nese Guner; Lambros Papadopoulos; Hugo Mills
Citicorp Pty Ltd	Nigel Pittaway
Dom Maklerski Banku Handlowego SA	Andrzej Powierza

OTHER DISCLOSURES

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