

Hargreaves Lansdown PLC

Analyst briefing on RDR and new pricing tariffs



Forward-looking statements

These presentation slides contain forward-looking statements and forecasts with respect to the financial condition and the results of Hargreaves Lansdown PLC.

These statements are forecasts involving risk and uncertainty because they relate to events and depend upon circumstances that may occur in the future.

There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. Nothing in this presentation should be construed as a profit forecast.

Nothing in this presentation should be seen as a promotion or solicitation to buy Hargreaves Lansdown PLC shares. It should be remembered that the value of shares can fall as well as rise and therefore you could get back less than you invested.

Ian Gorham, CEO

Recap

RDR1 – changes to ‘advised’ business rules wef 01.01.13
been good for HL

RDR2 – changes to ‘platform’ business rules wef 06.04.14

- no commission on new fund purchases
- unbundled funds and platform charges
- HL tender for lower fund management costs
- said we would include SIPP and treat all clients the same
- from 06.04.16 no commission on legacy business.

Result of fund group tender

Average W150 deal: 0.65% (standard 0.76%, saving 11bps)

Average W150+ deal: 0.54% (standard 70bps, saving 16bps)

27 funds in W150+

Discounts for 70% of W150 funds (c72% by value)

W150+ : our favoured W150 funds – the best value funds, not just low cost. Performance matters:

Returns = investment performance – fund charges

Best funds at the best prices - examples

Fund	Current AMC	Standard AMC	HL Unbundled AMC	HL Saving
Artemis Strategic Assets	1.40%	0.75%	0.66%	0.09%
Invesco Perpetual Tactical Bond	1.15%	0.625%	0.45%	0.175%
Legal and General UK 100 Index	0.65%	0.15%	0.06%	0.09%
Marlborough Multi-Cap Income	1.40%	0.75%	0.60%	0.15%

Average for Wealth 150 is 0.65%. Average for W150+ is 0.54%.

Standard price through others for W150 is 0.76% and for W150+ is 0.70%

What clients will pay: comparison

Scenario (Assumptions and calculations are shown in the Appendices)	Old Hargreaves Lansdown	New Hargreaves Lansdown	Company A	Company B
Online ISA £11,520	£73.73	£33.41	£57.69	£177.50
Phone ISA £11,520	£73.73	£57.41	£232.69	£370.00
Online SIPP £47,000	£300.80	£136.30	£228.65	£273.50
Phone SIPP £47,000	£300.80	£160.30	£403.65	£466.00

Assumptions: £47,000 account (the average HL account balance) invested into funds. Assuming client makes 7 fund deals per annum, the average number made by a Hargreaves Lansdown client. 0.16% average discount on a core fund on the Wealth 150 list. Company A 0.2% per annum plus £4.95 per online fund deal and £29.95 for telephone deals, plus £100 per annum SIPP charge. Company B charges from 1 Feb 2014, £155+VAT SIPP account charge plus £12.50 per online deal, £40.00 for telephone deals.

ONLINE SIPP £47,000	New Hargreaves Lansdown	Company A	Company B
Annual fund charge	£211.50	£94.00	£00.00
Account charges	£00.00	£100.00	£186.00
Dealing charges	£00.00	£34.65	£87.50
Total per annum	£211.50	£228.65	£273.50
Less: W150+ discounts	(£75.20)	£0.00	£0.00
Total per annum	£136.30	£228.65	£273.50

Why can we negotiate better deals?

IMA stats show extent of net fund flows

- Retail £1.6 billion
- Institutional £554 million

November 2013

Top five platforms 81% of net retail sales (2012)

Margins still generally better in retail than institutional

HL dominates direct-to-client (28% market share)

Vantage Service pricing - strategy and thinking

- ✓ **To deliver the changes required for RDR 2 with the maximum satisfaction and minimum disruption**
- ✓ **Competitive, attractive, simple, fair and proportionate**
- ✓ **Appeal to small and large investor**
- ✓ **Wanted to invest in lower charges: share the success**

Vantage Service pricing - strategy and thinking



%, tiered charges judged fairest and most predictable. Flat account charges judged unfair. Majority of clients small investors.



Same Vantage fund charge regardless of whether inclusive or unbundled unit class; active or passive; legacy or new



Transparency - comprehensive communication strategy



Change effective for all accounts and all investments from 1st March 2014

Vantage Service Fund pricing - headlines

Tier	Vantage Service charge
Up to £250,000	0.45%
From £250,000 to £1 million	0.25%
From £1 million to £2 million	0.1%
From £2 million	No charge

- Effective 1st March 2014
- The £1/£2 “platform fee” on certain funds will cease
- No flat annual account charge, no charge for clients placing fund deals
- Clients may instruct conversion of existing funds into the new units if they wish
- Paper supplement £10 per six months (per client). Not child accounts or online.
- Reduced charges for children (£5.95 share dealing), reinvestment (from £1) and holding shares in ISA and SIPP.

Why this structure?

Percentages are fair for small investors. 56% of clients have less than £25,000. For client investing full ISA allowance, £51.84 per annum = £4.32 per month.

No flat account charges. It will remain free to have an account with Hargreaves Lansdown.

Clients with large balances benefit from scale. Encourages transfer in.

Client outcome: most better off

Before: average margin on funds 0.6% (after loyalty bonus)

Therefore 0.45% or less is a substantial investment in a better deal for clients:

- 80% of clients will pay less or same ***
- Virtually all can reduce their costs**

Taken together with other tariff changes, our net investment in reducing client charges costs HL est. £8 million per annum

* assumes no change to investment holdings and excludes any avoidable fees

Other points of note

Changes to our managed portfolio service (PMS)

HL Multi Manager Funds: reduced annual management charge to 0.75%

Same platform charge applies to funds held in PMS and in Vantage

Introduced equity regular savings service

Lower costs for Junior ISA and Junior SIPP

Better reinvestment service

Benefits to clients

- ✓ **Highly competitive. Have invested in lower charges**
- ✓ **Add discounts - even more compelling**
- ✓ **Transparent. Good for small and large investors**
- ✓ **Apply same charges to all clients**
- ✓ **Hargreaves Lansdown is driving down the cost of investing**
- ✓ **We will continue to invest in the future - more detail**
www.hl.co.uk/lowcharges

Tracey Taylor, CFO

Overall impact on Group net income

Three key categories of changes to take into account:

- Platform/Vantage client tariff for holding investments

- New tiered charge for holding funds in Vantage and PMS
- Increased levels of loyalty bonuses
- Changes to charge for holding investment trusts
- Reduction in charge for holding shares (from 50bps to 45bps)

- Reduced AMC on HLMM funds (from 100bps to 75bps)

- Other charges

and any likely behavioural or volume changes

Impact on Group net income:

look at 3 scenarios

1. Base case: ignoring behavioural or volume changes,
apply the new charges to FY2013

2. Flexed base case: base case plus an estimate of
behavioural changes we might expect in first 12 months

3. Effect of 2016 'sunset' rules

Important tariff points

- The new tiered fund charges apply to both Vantage and PMS accounts. And to both pre-RDR and new fund holdings. This income will be accounted for within the Platform (Vantage) division
- Some trail commission on legacy funds will be retained until April 2016 sunset date (transitional arrangements)
- Different accounting treatment applies to legacy rebates and new unit rebates.

Net income / KPIs

New KPIs based on “net income” (total income minus loyalty bonus payments) will enable comparison of results under old and new pricing models

Financial Year	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2013 Base case (est)*	2013 Flexed base case (est)*	2013 Sunset (est)*
Group <u>net</u> income £m	90	110	124	147	192	222	269	268	261	
Operating profit £m	41	58	70	85	124	151	192.5	191.5	184	Dependent on growth in the 2 year period before the sunset rules apply (April 2016)
Operating profit margin (on <u>net</u> income)	45.5%	52.5%	56.1%	58.0%	64.7%	67.7%	71.5%	71.4%	70.6%	
Group <u>net</u> income margin	1.11%	1.04%	1.19%	0.94%	0.88%	0.91%	0.84%	0.84%	0.82%	
Platform/Vantage <u>net</u> income margin **	0.56%	0.60%	0.76%	0.64%	0.66%	0.69%	0.64%	0.64%	0.62%	0.59%
Platform/Vantage <u>net</u> income margin on investment funds **	0.47%	0.50%	0.50%	0.52%	0.56%	0.57%	0.57%	0.51%	0.48%	0.44%

* Estimates based on FY 2013 under the new pricing structure with different behavioural assumptions in each of the 3 scenarios

** Includes PMS and Vantage platform charges and related AUA

Base case estimate:

neutral effect of applying the new charges to FY 2013

	* FY 2013 (actual, as reported)	Increase loyalty bonus	Reduce charges	New / incr charges	FY 2013 (estimate, if new tariff had been in place)	+ / -
	£m	£m	£m	£m	£m	£m
Renewal income (incl non-Platform income)	130.4					-1.4
Loyalty bonus (commission paid to clients)	(23.2)					-85.5
Net retained renewal income	107.2					-86.9
Annual charges for holding investments	10.1					+81.3
HLMM funds Annual Management Charge }	13.0					-6.2
HLMM funds AMC (renewal income) }	13.3					
Initial commission	13.9					-0.9
Ongoing advice and management charges	6.9					+1.4
Other client charges	-					+7.8
Product provider charges	-					+2.5
The tariff changes do not affect the remaining income lines (Interest on client money, Initial charges, Stockbroking commission, Other income)	104.9					-
Group net income	269.2	-85.5	-9.7	+94.2	268.2	-1m

Assumes no behavioural or volume changes (e.g. no switching or conversion of funds, no change of paper/paperless account choice) and all new charges applied for whole of FY 2013.

** Refer to slide 32 in the appendices for a breakdown of net income by division*

Flexed base case:

estimate of effect of potential behavioural changes in first 12m

FY2013 base case: overlaying new charges on FY 2013

Group net
income

-c.£1M

Conversion or switching of legacy funds

- If we assume c.50% of legacy (pre RDR) holdings AUA will switch or convert on a phased basis over the first 12 months

-c.£5M

Clients with 'Paper' account preference

- Assume that clients who currently opt for paper correspondence reduce from c50% to c25% of total by June 2015

-c.£2M

(excludes effect of potential growth in new business / AUA)

-c.£8M

April 2016 'Sunset' rules

estimate of effect by FY 2017

April 2016 sunset rules

- No commission can be retained on any remaining legacy (pre RDR) holdings, meaning a further c£9m of income in total will be lost across FY2016 and FY2017. This is based on FY2013 AUA, assuming 50% of pre-RDR holdings have switched or converted by June 2015.

Move towards self-directed investing

- Throughout these estimates we have not taken into account any changes to the volume and value of net new AUA as a result of any trend towards self-directed investing.

In the past volumes have increased to offset the effect of price reductions. How do we need to grow AUA to offset this profit impact? ...

Growth in Net New Business

Growth from NNB in FY2013 was:

£5.1Bn

To offset the total effect of all these tariff changes would require total additional AUA over the next 3 years of:

c.£3.5bn

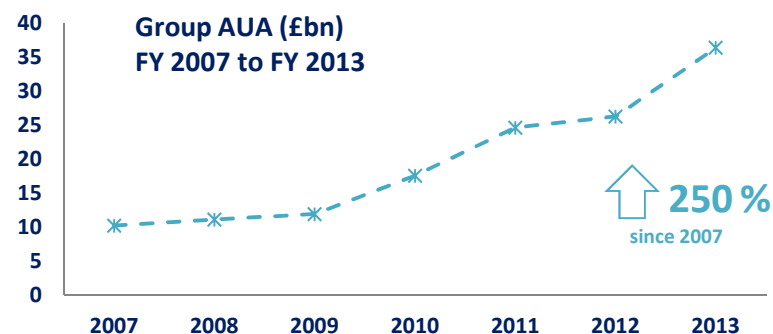
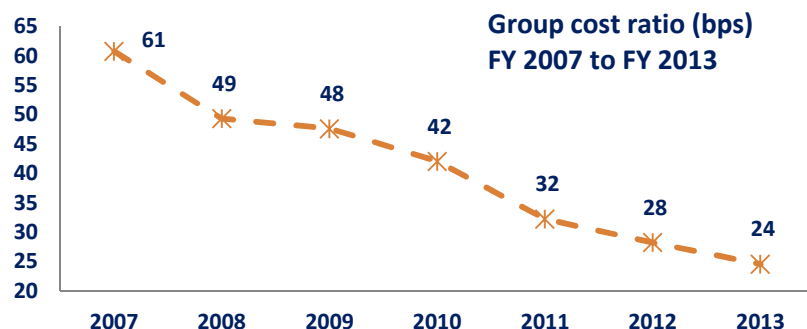
= c.8 months of NNB growth based on FY2013 run rate (= 69% of FY 2013 NNB):

- Q1 2014 NNB was £1.26Bn (up 129% from £0.55Bn Q1 2013)
- Q1 2014 net new clients 20,000 (up 186% from 7,000 Q1 2013)

Actual growth and scale

Historically the **combined** effect of **growth in AUA** and benefits of **increased scale** has more than offset reductions to net income margin and **driven growth in profit**.

	Group net revenue margin	Total AUA	Group cost ratio improvement	Revenue	Op. profit
FY 2007	111bps	£10.2bn	61bps	£98.8m	£40.7m
FY 2013	84bps	£36.4bn	24bps	£292.4m	£192.5m
Change	-24%	+250%	+60%	+196%	+373%



Summary

Self directed investing is great value

- ✓ Great service and security
- ✓ Self-directed investing is great value
- ✓ Gateway to the best value funds
- ✓ Continually share our success with clients

Questions

Appendices

Vantage tariff

Summary of key changes (full client tariff available online at www.hl.co.uk/lowcharges)

	Old	New
Client tariff		
Fund dealing	No charge	No charge
Share dealing	£5.95-£11.95	No change to tariff, except reduced charge of £5.95 per deal for U18s (ISA and SIPP)
Holding funds	Bundled within AMC	Tiered valuation based fee 45bps to £250k/then 25bps from £250k to £1m/then 10bps from £1m to £2m, then nil thereafter
Holding passive/tracker funds	£1 or £2 per month	
Holding Investment Trusts	0.5% pa with cap	0.45% with cap at £45 ISA and F&S, £200 SIPP
Holding shares		0.45% with cap at £45 ISA, £200 SIPP, no charge in F&S
Dividend re-investment	No charge on funds 1% min £10 max £50 on shares	1%, £1 minimum, £10 maximum charge for both funds and shares.
Regular savings into shares or investment trusts	n/a – new service	£1.50 per deal
Account closure fees	No charge (SIPP £75)	£25 (SIPP £75)
‘Paper’ account preference fee	nil	£10, twice yearly. Not charged if ‘paperless’ service is selected or for U18s (ISA and SIPP)
Account fees	nil	nil
Charges to Product Providers	Nil	Charges for certain platform activities and management information

HLMM fund tariff

HLMM fund Tariff

Annual Management Charge

Old

1%

New

75bps

FY2013 Divisional income:

estimated impact of tariff changes on base case

	Vantage	Discretionary	3rd party/Other	FY 2013 (actual as reported)	Est. impact of tariff changes on base case
	£m	£m	£m	£m	£m
Renewal income (incl non-Platform income)	122.5	1.4	6.5	130.4	-1.4
Loyalty bonus (commission paid to clients)	-22.9	-0.2	-0.1	-23.2	-85.5
Net retained renewal income	99.6	1.2	6.4	107.2	-86.9
Annual charges for holding investments	10.1			10.1	+81.3
HLMM funds Annual Management Charge }		13.0		13.0 }	-6.2
HLMM funds AMC (renewal income) }	4.9	8.4		13.3 }	
Initial commission	0.9		13.0	13.9	-0.9
Ongoing advice and management charges		6.9		6.9	+1.4
Other client charges					+7.8
Product provider charges					+2.5
The tariff changes do not affect the remaining income lines (Interest on client money, Initial charges, Stockbroking commission, Other income)					
	88.8	4.4	11.7	104.9	-
Group net income	204.3	33.9	31.1	269.2	-1m

Assumes no behavioural or volume changes (e.g. no switching or conversion of funds, no change of paper/paperless account choice) and all new charges applied for whole of FY 2013.

Vantage / Platform service net income margin

		Current tariff		New tariff (incl sunset rules)	
	Ave Assets (£bn)	Net Income (£m)	Net income margin	Estimated Net Income (£m)	Net income margin (est)
VANTAGE					
- Funds	16.9	*106.6	0.63%	73.7	0.44%
- Cash	3.2	58.7	1.85%	58.7	1.85%
- Shares/Other investments	10.0	35.6	0.35%	36.5	0.36%
- Other income**	-	3.4	-	11.5	-
Total Vantage	30.1	204.3	0.68%	180.3	0.60%
PMS platform charge	1.9	-	-	7.9	0.43%
Total Investment Platform	32.0	204.3	0.64%	188.2	0.59%

* includes £1.1m of platform fees (£1/£2 flat fee) on passive funds and £4.9m income from HL multi-manager funds

** includes adviser charges, paper-based fee and sundry transactional charges

Discretionary net income margin

		Current tariff		New tariff (incl sunset rules)	
	Ave Assets (£bn)	Net Income (£m)	Net income margin	Estimated Net Income (£m)	Net income margin (est)
- Ongoing advice fees (PMS)	1.9	6.9	0.36%	6.9	0.36%
- Renewal income/Investment Mgt charge (PMS)	0.2	1.2	0.75%	1.4	0.84%
- HL Multi-Manager AMC (funds in PMS) *	1.7	16.5	0.98%	12.8	0.75%
- HL Multi-Manager AMC (funds in Vantage) **	1.0	4.9	0.50%	7.4	0.75%
- Other income		4.4		4.4	
Total Discretionary division	2.9	33.9	1.18%	32.8	1.15%

* Relates to management fees and renewal income from HL Multi-Manager funds held in PMS

** Relates to just management fees from HL Multi-Manager funds held in Vantage

Summary of AUA

	FY 2013
	Ave. AUA £Bn
Vantage: Value of Investment Trusts AUA	1.0
Vantage: Value of Shares AUA	9.0
Vantage: Value of Funds AUA	16.9
Vantage: Value of Cash AUA	3.2
PMS: Value of AUA	1.9
HLMM Funds AUM	
- In Vantage	1.0
- In PMS	1.7

Tiered AUA (investment funds) – Vantage AUA

Tier	As at 30 Jun-2013			As at 30 Jun-2012		
	% of AUA	AUA £m	No of clients	% of AUA	AUA £m	No of clients
£0 to £250k	93%	£17,673	374,369	94%	£13,203	320,386
From £250k to £1m	6%	£1,159	7,255	5%	£660	4,192
From £1m to £2m	<1%	£106	241	-%	£66	138
> £2m	<1%	£120	48	1%	£94	32
		£19,058			£14,023	

What you'd pay: ISA comparison £11,520 invested, Hargreaves Lansdown, new v old

	"New Hargreaves Lansdown"	"Old Hargreaves Lansdown"
Vantage Annual fund charge	£51.84	£93.31
Account charges	£00.00	£00.00
Dealing charges	£00.00	£00.00
Total per annum	£51.84	£93.31
Less: discounts / loyalty bonus	(£18.43)	(19.58)
Total per annum	£33.41	£73.73

Assumptions: £11,520 (the 2014 allowance) online ISA account invested into funds. Assuming client makes 7 fund deals per annum, the average number made by a Hargreaves Lansdown client. 0.16% average discount on a core fund on the Wealth 150 list. "Old Hargreaves Lansdown" based on typical previous commission and loyalty bonus arrangements of 0.81% commission and 0.17% loyalty bonus.

What you'd pay : Online ISA comparison

£11,520 invested

	New Hargreaves Lansdown	Company A	Company B
Vantage Annual fund charge	£51.84	£23.04	£00.00
Account charges	£00.00	£00.00	£90.00
Dealing charges	£00.00	£34.65	£87.50
Total per annum	£51.84	£57.69	£177.50
Less: W150+ discounts	(£18.43)	£0.00	£0.00
Total per annum	£33.41	£57.69	£177.50

Assumptions: £11,520 (the 2014 allowance) online ISA account invested into funds. Assuming client makes 7 fund deals per annum, the average number made by a Hargreaves Lansdown client. 0.16% average discount on a core fund on the Wealth 150 list. Company A 0.2% per annum plus £4.95 per online fund deal, £29.95 telephone fund deal. Company B charges from 1 Feb 2014, £75+VAT account charge plus £12.50 per online deal, £40 per telephone deal.

What you'd pay : Telephone ISA comparison

£11,520 invested

	New Hargreaves Lansdown	Company A	Company B
Vantage Annual fund charge	£51.84	£23.04	£00.00
Account charges	£00.00	£00.00	£90.00
Paper supplement	£24.00	£00.00	£00.00
Dealing charges	£00.00	£209.65	£280.00
Total per annum	£75.84	£232.69	£370.00
Less: W150+ discounts	(£18.43)	£0.00	£0.00
Total per annum	£57.41	£232.69	£370.00

Assumptions: £11,520 (the 2014 allowance) online ISA account invested into funds. Assuming client makes 7 fund deals per annum, the average number made by a Hargreaves Lansdown client. 0.16% average discount on a core fund on the Wealth 150 list. Company A 0.2% per annum plus £4.95 per online fund deal, £29.95 telephone fund deal. Company B charges from 1 Feb 2014, £75+VAT account charge plus £12.50 per online deal, £40 per telephone deal.

What you'd pay : Online SIPP comparison, £47,000 invested, Hargreaves Lansdown, new vs old

	"New Hargreaves Lansdown"	"Old Hargreaves Lansdown"
Vantage Annual fund charge	£211.50	£380.70
Account charges	£00.00	£00.00
Dealing charges	£00.00	£00.00
Total per annum	£211.50	£380.70
Less: discounts / loyalty bonus	(£75.20)	(£79.90)
Total per annum	£136.30	£300.80

Assumptions: £47,000 account (the average HL account balance) invested into funds. Assuming client makes 7 fund deals per annum, the average number made by a Hargreaves Lansdown client. 0.16% average discount on a core fund on the Wealth 150 list. Company A 0.2% per annum plus £4.95 per online fund deal and £29.95 for telephone deals, plus £100 per annum SIPP charge. Company B charges from 1 Feb 2014, £155+VAT SIPP account charge plus £12.50 per online deal, £40.00 for telephone deals. "Old Hargreaves Lansdown" based on typical previous commission and loyalty bonus arrangements of 0.81% commission and 0.17% loyalty bonus.

What you'd pay : Online SIPP comparison

£47,000 invested

	New Hargreaves Lansdown	Company A	Company B
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Dealing charges	£00.00	£34.65	£87.50
Total per annum	£211.50	£228.65	£273.50
Less: W150+ discounts	(£75.20)	£0.00	£0.00
Total per annum	£136.30	£228.65	£273.50

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What you'd pay : Telephone SIPP comparison

£47,000 invested

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Vantage Annual fund charge	£211.50	£94.00	£00.00
Account charges	£00.00	£100.00	£186.00
Paper supplement	£24.00	£00.00	£00.00
Dealing charges	£00.00	£209.65	£280.00
Total per annum	£235.50	£403.65	£466.00
Less: W150+ discounts	(£75.20)	£0.00	£0.00
Total per annum	£160.30	£403.65	£466.00

Assumptions: £47,000 account (the average HL account balance) invested into funds. Assuming client makes 7 fund deals per annum, the average number made by a Hargreaves Lansdown client. 0.16% average discount on a core fund on the Wealth 150 list. Company A 0.2% per annum plus £4.95 per online fund deal and £29.95 for telephone deals, plus £100 per annum SIPP charge. Company B charges from 1 Feb 2014, £155+VAT SIPP account charge plus £12.50 per online deal, £40.00 for telephone deals.