Standard Life full year results 2016

Friday 24 February 2017

Keith Skeoch, Chief Executive
Welcome to Standard Life's Results Presentation. With me on the platform are Luke Savage, our Chief Financial Officer, Colin Clark, Head of our Global Client Group and Paul Matthews, Chief Executive of Pensions and Savings, unfortunately for the last time. Paul has chosen to retire after 28 years at Standard Life. So I thought I would give you plenty of advance notice. This is your last chance to ask questions of Paul. We would be grateful if you can make sure your phones and other devices are switched off and once you have read the compliance slide, I will get the presentation underway.

Over the next 40 minutes or so I will give a brief overview of our 2016, Luke will then go through the results in some detail and I will come back and set 2016 in its strategic context. We will then move to question and answer where Luke, Paul and myself and a whole bunch of executives in the front row will do our level best to answer your questions.

2016 was a year when Standard Life made good progress towards creating a world class investment company. As we promised at the Interims, we increased our pace of strategic delivery. We continued with our targeted investments in diversification and growth. We improved our financial discipline, with a focus on driving greater cost efficiencies. We also strengthened our long-term relationships with clients and customers, including the long-standing customers in our mature books. Our focus on strategic delivery strengthened the resilience and sustainability of our simple capital light business model, which continues to deliver for clients, customers our people and shareholders.

We grew assets by 16% and fee based income by 5%. But the benefits of the investments we made in diversification were most visible in our growth channels. Here we saw asset growth of 20%, revenue growth of 10% and net inflows of £4.1 billion. This robust and well diversified growth was more than enough to offset the impact on revenues of both the £4.3 billion outflow from GARS and the continued long-term run-off of our matured book of business.

We also improved our financial discipline. We lowered the cost/income ratio to 62% through careful cost management. We delivered the integration of Ignis early, enabling Standard Life Investments to deliver the 45% EBITDA margin one year ahead of schedule. The benefits of a well diversified customer and client base combined with the improvements in our operating leverage, helped us deliver a 9% increase in operating profit and cash generation. That provided support for continued dividend growth. Our final dividend of 13.35p takes the total for the year to 19.82p, and marks a decade of unbroken dividend growth at Standard Life.

With that, I will hand over to Luke who will go through the detail and I will come back and talk about 2016 on its strategic context. Luke.

Luke Savage, Chief Financial Officer

Thank you and good morning ladies and gentlemen. As Keith said, this is a strong set of results. And if we turn first to the summary P&L. You can see in the first two rows that that growth in income has been driven by our fee business which represented 95% of our one and three-quarter billion pounds of underlying income. Income from our spread-risk business remains steady at £92 million and it is a reflection of our move towards a capital light business that does not tie up balance sheet that the PRA have re-categorised Standard Life from a major life group to a retail life group.

We will look at the individual components of our profit in more detail later, but before I move on, I would point out how the growth in fee revenue combined with a sharpened focus on efficiency has allowed us to increase the underlying performance by 8% to £681 million. And behind that sits an 11% increase in the underlying performance of our fee business now standing at £596 million.

You can see we continue to benefit from favourable assumption changes, largely with respect to longevity, adding £42 million and almost unchanged on last year, and helping to drive that operating profit, as Keith says, up 9% to £723 million. So a strong set of results.

So what about our non-operating. We said a year ago, we expected non-operating costs to fall in 2016 and annuity provision aside, which I will come back to, you can see that we have delivered on that with non-operating costs down £158 million from £257 million down to £99 million this year.

So in terms of the annuity provision, you will remember that we announced in October that the FCA's review of annuity sales showed that a number of sales that we made since July 2008 did not adequately explain to customers that they may have been eligible for an enhanced annuity. Now to us that is obviously disappointing. What we also said at the time, we would be undertaking a past business review of these non-advised annuity sales. And as a result of that commitment, we have made a provision of £175 million to cover both the possible customer redress, together with a sizeable programme cost of undertaking the review itself. I would however stress that we are not at this point taking credit for any PI insurance recovery, but we are aiming to recoup up to £100 million.

Let's look now in more detail at the first component of our business model, increasing assets. Despite volatile markets, we gathered over £4 billion in net new flows through our growth channels, helped by the diversity of our business. We also completed on the acquisition of Elevate, adding a further £11 billion of assets. While our mature fee businesses which were in long-term structural run-off saw net outflows of £6.2 billion, down from £8 billion last year, helped by the winning of a £1.2 million mandate from Phoenix in the fourth quarter.

A combination of rising markets and the weak pound helped add over £40 billion through market movements to give us total assets under administration of £357 billion, up 16% on the year. And within that market movement roughly one third was FX and two thirds from other market movements.

Before we take a look at the drivers behind the £4 billion of net flows across our growth channels, we can see how they break down here. And we have shown not just a strong net flow, but the strong gross inflows that we generated by channel. At £38.6 billion, little changed year-on-year.

So if you turn now to Institutional and Wholesale, it is worth starting off by saying that gross flows here have also remained strong at £27.7 billion this year compared to £30.5 billion last year. And at the net level we have delivered £1.1 billion of net Institutional flows from a business increasingly diversified by geography, by customer type and by investment solution.

In Wholesale, along with most of the entire industry, which according to the Pridum Report was the worst the industry has seen for 20 years, we have had a challenging time. The uncertainty of the Euro, the US elections and so on has driven a trend of investors taking risk off the table with us seeing net outflows of £1.7 billion. But to put that into context, that is against closing Wholesale assets of £50 billion and a UK market share which remains strong at 4.7% - testament to the strength of our franchise across a broad range of asset classes.

We are seeing the benefits of our investment in our capabilities and global distribution that we have been making with growing demand for our increasingly broad range of investment solutions. So whilst demand for GARS was weaker in 2016 as Keith said, £4.3 billion of net outflows largely from the more reactive wholesale channel, demand for our other products continued to grow. In 2016 alone, we launched 16 new funds, many in the new active space, and attracting average margins broadly in line with the rest of the book of business.

And as you can see from the chart on the left, we have more than doubled both gross and net flows into products other than GARS over the past three years. Despite the changing environment in 2016 we saw growth in flows into those products increase by 30% to £17.5 billion with strong net flows of £3.7 billion.

On the right hand side, you can see that we delivered strong growth in net inflows in areas such as other multi-asset, fixed income, private equity and MyFolio. And MyFolio has now broken through the £10 billion mark of assets under management. So our long-term diversification agenda is clearly delivering.

Let's turn now to our Workplace and Retail channels which continue to attract steady and resilient net flows. In 2016 these amounted to some 7% of opening assets and were also boosted by the acquisition of Elevate and the £11 billion of assets that came with it. Our total AUA is up an impressive 33% year-on-year, breaking through the £100 billion mark, up from just £45 billion five years ago.

In terms of a bit of colour, we continue to sign up new auto-enrolment schemes, around 8,000 in total and that has increased our regular Workplace contributions to £3.1 billion per annum. Now these are very sticky and very steady flows and they now constitute about 75% of our gross flows into Workplace. And as the minimum contribution rates in auto enrolment increase in April 2018 and then again in April 2019, we expect that to perpetuate the ongoing growth. Furthermore our Workplace business continues to feed assets into our retail businesses. Some £2.2 billion in 2016 alone. £0.3 billion of which went into drawdown. And in total we have now grown our assets from drawdown by 21% to £16.4 billion.

In Retail, our award-winning Wrap platform continues to attract strong net flows and in 2017 we expect our already market leading position to be boosted by acquisition of Elevate, itself another award-winning platform.

Now as we have indicated previously, the total cost of acquisition integration for Elevate will be in the order of £100 million. That is a little over £30 million for the acquisition and the balance for the integration. As we said before, we expect that to take about two years and by the time we finish we will have turned around a business which had been losing close to £20 million a year into a business making a profit of a similar amount, largely through cost reduction and we are already making progress in that direction.

The second component of our business model is also delivering. In 2016 we grew revenue by 5% with growth channel revenue up by 10% while fee revenue on our mature books was 8% lower, impacted by lower performance fees, down £14 million as well as lower premium based income in Europe. That said, our mature fee business in the second half was 6% up on the first half off the back of market movements and FX which also helped drive closing assets in our mature books up by some 8% versus opening AUA.

And over time revenues from our growth channels, the dark blue bars on the left, are up over 70% in the last four years, whilst revenue from our mature books in the light blue bars, has remained relatively constant boosted a little by the Ignis acquisition in 2014.

And in terms of revenue margin across our growth channels, we continued to see little pricing pressure and that comes through in the stable margins on the right hand side of the chart, with the small year-on-year movements being up one basis point for both SLI and Workplace. And down one basis point in Retail. As I say, the small moves we do see are a function of mix and not of pricing.

By channel, we expect SLI third party revenues to remain stable in the low 50bps. Workplace has stabilised as a function of our success in the auto enrolment market. And Retail margins are supported by increasing volumes of drawdown and the build out of 1825. Now it is worth noting that the Elevate pricing, as we have said before, is lower than our own Wrap pricing. So all other things being equal, we can expect the average Retail yield to drift down by about two basis points in 2017.

Turning to spread/risk margin, as I said earlier, only 5% of our underlying income comes from spread/risk activities. As announced at the half year, we had a one-off gain of £22 million from changes to the scheme of demutualisation arising from the adoption of Solvency II. We have guided ALM activity to be down from £30 million last year to be around half that this year. But as it was we took advantage of periods of market volatility to generate £25 million of income, so only down £5 million in the end. But once again we would guide towards up to £15 million of ALM activity in 2017 although as in 2016 that will be very much subject to market conditions.

Finally on this slide, the negative other of £26 million is made up of a host of small items, the most notable being related to negative mortality experience in year of £8 million.

The third component of our business model is our focus on lowering unit costs, where we have previously articulated a commitment to see the cost/income ratio trend down to below 60% over time. On the left is the result of our efforts in 2016 down one percentage point to 62% and that improvement is after the drag from taking on Elevate and building out 1825, our advisory proposition. In part that reduction has been achieved by strong cost discipline in SLI as we responded to the challenging market conditions over the course of the year.

On the right hand side you can see we have broken out Elevate and 1825, excluding which you can see that underlying costs are up just 2% and let's not forget that that 2% includes the significant ongoing investment in other aspects of our business beyond 1825 and Elevate.

And if we pull all of that together, we have given it an 11% increase in our fee based performance. Within the second and third bars you can see a drop through rate between revenue down to profits of over 60%, and that is the £64 million in blue versus the £24 million in grey. It is a sign of our financial discipline and operational leverage inherent in our scalable business and proving that we are delivering results.

If we look back over five years we can see our fee revenue has grown by 60% to £1.7 billion driven by near doubling in our fee revenue from our growth channels now standing at £1.2 billion. And that revenue growth combined with our scalable business model has fuelled a three-fold increase in profits from our fee business which now stands at almost £600 million. And it is this fee business growth that is the driver for underlying performance more than doubling to £681 million.

Looking now at how this breaks out by business units. I will go into SLI and UK Pensions and Savings in more detail in a subsequent slide, so let's just deal with other minor items before moving on.

In Europe we saw a £4 million gain on the move to Solvency II together with £5 million of positive experience in the year. In combination they helped drive profits to £39 million, but the Solvency II gain will not repeat and we do not presume to gain from positive experience, so over the medium term we will continue to guide towards a £30 million profit level for Europe, although this is a market where we do see good long-term growth opportunities.

Our associates and joint ventures included on the slide here, are our life businesses because we include HCFC asset management within SLI and you can see underlying performance is up over 60%. HDFC Life benefited from both our stake increase from 26% up to 35% as well as us growing underlying premium income by 18%. While Heng An Standard Life, our Chinese joint venture, sales were up 39%, helping to drive increasing profitability. And in both of these markets we see strong growth opportunities going forward given both demographic changes and the nascent pensions markets in each of those countries.

Turning to our major business units. In SLI we have grown assets by 10% to £278 billion, on the top right hand corner. And fee revenue is up £42 million, a 5% increase. Our discipline in pricing and focus on new active investment solutions has enabled us to lift revenue yield up one basis point to 53 basis points, three-quarters of the way down the right hand side. And importantly, through effective integration of Ignis and strong cost discipline, we have delivered that target EBITDA margin, as Keith said, of 45%, a year ahead of our original guidance.

Now as we said before, we don't expect revenue yields to go any higher. And alongside our ongoing investment in growing the business, it means we maintain our previous guidance that the EBITDA margin should track in the low to mid 40 basis points going forwards.

Finally across the bottom of the slide in the yellow dots, our short term investment performance has been mixed, although it remains strong at the all important 3 and 5 year time horizons that our focus on change methodology targets so effectively.

In our Pensions and Savings business we have grown total fee AUA up by 23% in part through the acquisition of Elevate, in part through sustained strong net inflows into our growth channels and in part through favourable market movements and that is despite the long-term run-off of the mature books of business within those figures. Again good pricing discipline and more favourable mix of business including the success of things like "Good to Go", the build-out of 1825 and things like Click to Switch, has allowed us to maintain the average revenue yield across our growth channels with the overall total coming down by just one basis point. And the proportion of fee assets from those channels has increased from 69% to 74%.

And while the headline cost/income ratio in the bottom right hand corner of this slide has nudged up from 59% to 62% if you exclude the impact of our start-up activities in 1825 and Elevate, the cost/income ratio of our underlying business has remained largely flat and would have come down if not for the reduction in the spread/risk margin.

And Keith will touch on some of the initiatives we have in place to continue that downward drive when he comes back to speak in a moment.

When it comes to balance sheet, we continue to run a strong solvency surplus. Now as we explained back in August, we focus on the investor view of capital, which eliminates dilutions arising from anomalies within the Solvency II framework. Now we have repeatedly said that given the fee based nature of our business, that our surplus was relatively sensitive to markets. That is demonstrated in the results, unchanged year-on-year at £3.3 billion and a ratio of some 214%. From a pure regulatory perspective, much of the capital that we previously did not recognise at Group, is now recognised off the back of our work to agree methodology changes with the PRA together with changes to the Companies Act that recognised the Solvency II regime. And as a result we have increased our regulatory surplus view by £1 billion to £3.1 billion.

The lack of volatility in our surplus is demonstrated here. When we apply the same univariate stresses that we have used in previous reporting, the surplus is stable across a wide range of scenarios. You can see it moves by a maximum of £200 million in the second blue bar along, which is equities down, and in the penultimate bar on the right hand side which is a reduction in mortality rates. So as we have said, we believe it is very stable.

However, as we have also repeatedly said, regulatory capital is not a constraint on us. Our focus is on cash generation. It is cash generation that funds reinvestment in organic growth, it is cash generation that funds inorganic growth and importantly, it is cash generation that underpins our progressive dividend policy. On the left we show that we've triple the cash generated in just the past 6 years, now breaking through the £500 million mark. And as you would expect from a fee based business, our cash generation is closely aligned to our IFRS earnings. On the right our plc level equity reserves at £0.9 billion, remains strong down a little on 2015, primarily because of our stake increase in HDFC Life.

It is the strength of our cash generation, the strength of our cash reserves that once again enable us to increase the dividend, by 8% for the full year to 19.82 pence per share. That gives us an unbroken record of a decade of progressive dividends and confidence that our fee based model should enable us to maintain that policy going forwards.

Thank you, and Keith back to you.

Keith Skeoch, Chief Executive
Thanks Luke. So despite all the headwinds that buffeted the industry and the markets in 2016, we continued to deliver growth in assets, revenue and through our increased financial discipline, profits. That was most visible in our growth channels that increasingly drive long-term value at Standard Life. Our strategic focus I believe has positioned us well to benefit from the global trends we see shaping the savings and investments market. The big four trends I identified a year ago have if anything intensified and reinforced three important elements of Standard Life's strategy.

First, Standard Life's purpose. To invest for a better future, to make a difference for clients, customers, our people and our shareholders. Second, the importance of innovative investment management and our new active componentry. At a time when I think active management is going to become more important.

Finally the importance of a global approach. We need to compete at home with world class as well as abroad. So as we move into 2017, I and my Executive Team are intensely focused on our strategic priorities, because we believe it is those strategic priorities that will deliver a world class investment company. And it is a world class investment company that will sustain growth in assets, revenues and profit and deliver value for shareholders and actually a promising future for our people.

So we will continue to invest in diversification and growth by broadening and deepening our investment capabilities and attracting and retaining talented people. We will continue to improve our financial discipline by building an efficient and effective business. So we will continue to grow, but also diversify our sources of revenue and profit. By ensuring the strong relationships we develop with clients and customers are right at the centre of everything we do, that is how we will improve the resilience and sustainability of our capital light business model.

So over the next ten minutes or so I am going to look at each of these strategic priorities in turn so I can set 2016 in its strategic context.

We are making good progress I believe on deepening and broadening our investment capability. As you can see from the chart on the left hand side, we continue to rollout a suite of new active funds throughout the risk return spectrum.

We launched 16 new funds in 2016 including the SICAV version of MyFolio for the German market. We have a good track record not just of extending our product range, but also commercialising it. So if you look beyond the GARS outflows of £4.3 billion for a moment, we saw net inflows of £3.7 billion from elsewhere in our product range. And indeed if we went to look back as far as 2012, we have attracted gross inflows of £58.3 billion in funds other than GARS. A 150% increase over the previous 5 years. Put another way, GARS accounted for 40% of gross flows in 2013, its peak. In 2016 it was 26%. So there is evidence in my view that the investments we have been making in diversification are paying off.

For example we have attracted £19 billion into the new active funds we have launched over the last 6 years. More importantly, these funds have an average revenue yield of above 50 basis points. That allows us to maintain our mantra of a premium product for a premium price. A key part of our financial discipline. Ensuring we have an innovative pipeline to meet changing client needs has been the bedrock of our diversification agenda for some time. And we saw the benefits continue to emerge in 2016. I say continue advisedly and that is because as I have said many times, the product cycle in asset management is a lot longer than people think. It can take up to 7 years to get full scale in terms of profitability so you can reinvest in the rest of the business. Have a good idea, two to three years to develop a track record. Years 3, 4, 5, you will see flow. Years 4 and 5 you will generate profitability. Years 5 and 6 you get payback. By year 7, you have enough scale to be throwing off profit to reinvest in the business. So little surprise if you look on that slide that the bulk of the £19 billion is from product that was launched 5 and 6 years ago. I would expect momentum to continue to build over the next couple of years in the new active funds we have recently launched. And I think we will make progress in private markets, the insurance segment of the market and we will continue to build out our Integrated Liability Plus Solutions.

But let there be no doubt, I and the team are equally focused on the other component of financial discipline. Driving down unit costs to unlock the operating leverage inside a world class investment company. This focus ensured the early delivery of the 45% EBITDA margin associated with the integration of Ignis. With the acquisition of the Elevate platform complete, the integration of the platform and the business is underway. And we will apply a similar focus to the delivery of both the strategic and the financial benefits. So far, actually so good. Business has been good with better than expected flow and better than expected asset levels. But we will also continue to search out greater efficiencies across the rest of our business. We are streamlining our customer operations through the continued use of automation and straight through processing. We continue to make progress on the re-engineering of our legacy IT systems. As we build an efficient and effective business, we will push our cost/income ratio below 60% in the medium term.

Now investing in our diversification agenda and improving our financial discipline requires not just focus but high levels of co-operation and collaboration throughout our organisation. World class companies have world class people and they need to invest in their talent. And Standard Life Investments and Standard Life are no different. We have made I think, good progress in 2017. Our strategic delivery in part reflects increased co-operation and collaboration across the Group. Our engagement scores did improve, especially on respect and recognition which suggests our efforts to improve diversity are being recognised.

We also have made progression I think on the world class front. Our sponsorships can speak for themselves. One of the things that I and the team are particularly proud of, was the fact that the Boston office was named as The Best Place to Work in the United States for a medium sized asset manager. No mean feat when you look at the track record of most UK firms operating in one of the toughest markets in the world. So our particular blend of global and local I believe augers well for the Singapore and Tokyo offices that we opened in 2016.

One area where we expect to make a good deal of progress in 2017 is across the distribution teams at Standard Life. Colin Clark has been leading the drive to greater levels of co-operation and collaboration and improved efficiency across our distribution networks to help even stronger relationships with clients and customers.

So whilst 2016 undoubtedly brought its challenges for active managers, we actually continued to see strong levels of activity either through pitches or RFIs. And a notable beneficiary of that activity has been our broad, multi-asset offering. And that has already resulted in a new partnership with Challenger announced a week ago. Challenger is a major Australian post-retirement house. The partnership with Challenger comes on top of the benefit that we are receiving from the partnership with Bosera which was announced earlier in 2016. So we have an increasing global presence. 29 locations serving clients and customers in 45 countries.

And our increasingly well diversified customer and client base is a major strength for Standard Life. I think as 2016 illustrated, clients and customers react in different ways to the same set of events. That was clearest in our Pensions and Savings business. Consolidation is accelerating, low interest rates and historically high transfer values are triggering increased activity by wealthy individuals and they are moving from DB to DC to take advantage of pension freedoms. The advice market is now almost totally platform based and we are a clear beneficiary because our Wrap and Elevate platforms lead the market and serve over 3,000 adviser firms.

We also continue to see regular and predictable flows into Workplace. We have auto enrolled more than a million employees since 2012. Interestingly we are also seeing some evidence that that so-called pensions fatigue is ending. And it is pleasing that even the biggest schemes appear to be impressed with the breadth of the functionality that Standard Life can offer. It might be too early to claim a major change in client attitudes, but it does feel like the Workplace pensions market is changing in a way that plays to Standard Life's strengths.

So as Luke and I have said many times, the benefits of our strong relationships are most visible in the growth channels that drive long-term value. Here assets grew by 20% to £237.6 billion and represent two-thirds of assets under administration. More importantly fee based revenue rose 10% to £1.2 billion and that is 73% of total fee based revenue.

Furthermore, as you can see from this chart, revenue is well distributed across our four largest channels. The largest channel, Institutional, represents £360 million out of £1.2 billion. So around about 30%. Wholesale and Retail are around 20% each. Wholesale of course was where we experienced the bulk of GARS outflows. £3.9 billion of the £4.3 billion. But note that total outflows were £1.7 billion. Only 4% of opening assets. As we continued to see inflows into areas where we had good performance, in particular MyFolio and GILB, Global Index Linked Bonds.

It is also I think quite important to note that not all channels are as sensitive to short term performance as Wholesale. The Institutional channel where we saw positive inflows, we saw positive inflows in 5 out of 7 asset classes. That reflects the strength and depth of our ratings from consultants.

So one of the great benefits of our well diversified business and strengthening relationships with clients is the stability of our revenue yield. The investments we have made in diversification and growth together with our improved financial discipline is delivering well diversified growth across our business. The strengths of the growth channels which you can see on the left hand side is off-setting the run-off in our mature books. This is a feature I would expect to persist over the next couple of years.

We also get diversification benefits from our life associate and JVs which you can also see from the chart on the left hand side. These now account for 10% of operating profit and we will see further progress when HDFC Life is able to merge with Max Life.

So in summary, 2016 was a year when once again Standard Life increased assets, grew revenue and lowered unit costs. We generated a 9% increase in operating profit and cash flow to support our progressive dividend.

Our strategic focus has helped us make good progress in delivering a world class investment company. And that is where the focus of I and my Executive Team will remain in 2017. When it comes to targeting investment and diversification and growth, I can assure you we are as focused as we ever were on investment performance. Investment performance is recovering and that does include GARS. We are due to launch around about a fund a month in 2017 and we will probably hit the 16 number again as we continue to build out private markets and Integrated Liability Plus Solutions.

Focusing on driving cost efficiency, you should be in no doubt, absolutely no doubt, we are very firmly focused on delivering a cost/income ratio which falls below 60% in the medium term.

Strengthening long-term relationships with clients and customers, well it started I think pretty well in 2017, better than expected flows on the Elevate platform, better retention and of course we even announced a new relationship in the post-retirement market down in Australia.

Making world class our Standard. I think 2017 has also started well. Very dangerous to extrapolate from a single month, but so far reflecting markets, reflecting the pickup in performance we have seen positive net flows across our business. I can assure you that rather than focusing on the long-term, my focus and that of my team will remain on delivering for customers, clients and shareholders.

Thank you and with that Luke, Colin, myself, the Executive Team and particularly Paul, will be more than happy to try and answer your questions. Thank you.

Question and Answer Session

Question 1: Jon Hocking, Morgan Stanley

Thank you, morning Jon Hocking from Morgan Stanley. I have got three questions please. Firstly on performance, can you update us on where GARS is tracking versus benchmark? And also the funds you highlighted on the slide that are relatively recent launches, how are they tracking relative to their respective benchmarks? That is the first question.

The second question, you seem to be adding a lot of complexity to the platform, given the number of fund launches. Is there a negative cost implication here that you end up with a clotted platform and actually distribution finds it hard to focus on your best product?

And then the third question, what are the potential cost implications of MIFID next year? Thank you.

Answer: Keith Skeoch

GARS is actually tracking reasonably well, but with Rod in the front row, Chief Investment Officer, I think it is sensible for Rod to pick up the questions on the performance.

Answer: Rod Paris, Chief Investment Officer

Yes the first one was in terms of GARS performance. It is actually tracking well. In effect we have been raising our risk levels post-Trump, and I think we are seeing the return of more fundamentally driven markets which actually plays to our Focus On Change philosophy which is a fundamentally driven philosophy. So that is definitely starting to come through. I have seen performance, not just of GARS but across the entire franchise. I think these markets are much kinder to active fundamentally driven approaches. I think going back on GARS, we ran quite low levels of risk actually going into Trump as you might imagine at that stage. And I think only now we are starting to see those risk levels getting back to an area where we will start to regain our performance momentum.

You asked I think a very pertinent question about performance as it impacted some of our new active solutions. And there I am actually pleased to say performance is actually holding up very well from 2016 and into this year. That would be around a lot of our absolute return bond funds which are selling well. Our total return credit. Those sorts of activities which have played to if you like volatility controlled new active solutions, are very much on target and are performing.

Answer: Keith Skeoch
And that is precisely what the relationship with Challenger is about. An interesting question about the complexity of the platform. One of the great things that we have done over time is built an effective and scalable platform so these funds do not bring massive additional cost in terms of the delivery of the administration behind them or the manufacture of a new wrapper, whether it is Institutional or Wholesale, we are already manufacturing in most of the key wrappers around the world. So marginal costs are relatively light and fully worked into clearly our business plans for those new product launches.

Costs of MIFID. I think in terms of man hours, quite expensive given all the things we need to do. We are on track, there is a little bit of MIFID that has to be completed. I don't think MFID is going to have a meaningful impact on the cost profile at Standard Life Investments, it is something we can easily cope with.

Question 2: Ravi Tanna, Goldman Sachs
Thank you. It is Ravi Tanna here from Goldman Sachs. I have three questions please. The first one was on your reference to the EBITDA margin from SLI which I think you, correct me if I misheard, but I think you referenced low to mid 40s. And I wanted to understand a bit more about how you plan to get there or what the moving parts are? Clearly the Group cost/income target is to come down below 60% and so I just wonder, have we exhausted the cost reductions within SLI or is this more a statement around declining revenue margins going forward?

The second one was just around Elevate and if you could talk a little bit about how the adviser market have responded since that acquisition and generally what experience you've had there?

And the third one was just a clarification really on the annuity provision that has been taken and if you could give any sense around pending sensitivities to the £175 million and what is assumed within that calculation? Thank you.

Answer: Keith Skeoch
So I do the EBITDA. Paul if you do Elevate and then Luke the annuity question. The guidance on the EBITDA margin at Standard Life Investments is relatively straightforward. We don't think it is structurally going to get any higher because we don't think the revenue yield will structurally get a lot higher. There will be some years when actually it could bounce a little bit above because markets are favourable and beneficial. There may be other years when markets are more difficult or we need to accelerate investment in our platform. But by and large I think what we

are trying to signal it will oscillate somewhere around current levels. So some years it will be lower and some years it may be a bit higher. So I think that is where we are.

Further answer: Paul Matthews, CEO Pensions and Savings
Elevate has gone down exceptionally well actually. I think one of the things the AXA advisers themselves have been impressed with as well as the IFAs, is we have got a greater investment choice. So they get far more range of investment options and at far better pricing than AXA managed to negotiate. They have greater functionality options now with both Wrap and the Elevate platforms so they have got more choice. They have greater support and we expected to probably get a billion less than we got. We got a billion pound more come across, we thought some would flow off with the purchase. And we had expected probably negative outflows to start with because some of the IFAs traditionally have not dealt with Standard Life and we did think there might be some issue about the ownership. But in fact we have had very strong inflows. So I think the whole financial stability and the whole support around what we provide has been much better than we had anticipated.

Answer: Luke Savage
And then on key sensitivities, probably the easiest thing for me to do is refer you to the Annual Report and Accounts page 175. We list out there all of the key assumptions and a table of the sensitivity of those assumptions in there. So rather than me reading it out, page 175.

<u>Question 3: Oliver Steel, Deutsche Bank</u>
Oliver Steel, Deutsche Bank. One of your key tenets is rebuilding trust in financial services, but the FCA seems to be doing quite a lot to actually sort of kick out at the margins being taken by fund managers at the moment. So I was just wondering if you are seeing any impact from that at all or how you are thinking about it and particularly you are making quite a strong case for active fund management, whereas actually they are making a strong case for passive it seems.

Secondly, what percentage of the GARS outflows are you actually winning back in some of the new funds?

And then thirdly, perhaps Luke could just remind us of the transitionals, so I think that is £1.5 billion of transitionals, is that all relating to the annuity book or is there something else in there?

Answer: Keith Skeoch
Okay, I will do the trust question, Colin if you can do the GARS and then Luke the transitionals. You can see from that launch of new products, we are not actually seeing any impact on revenue yield. So it is absolutely clear to us that in the market clients and customers will pay for the combination of performance and innovation. There was a survey a few years ago that looked at, I think it was about 400 fund buyers and they made exactly that point. Price is a bit further down on the list. I think where the FCA is having a go and quite rightly in my view, is that where there is lack of transparency, where there are old fashioned closet index or benchmark plus, and they are big high commodity funds and they are still charging active fees and they don’t have an active component, then that is going to come under pressure. That is just not simply the business we have been in nor is it the sort of funds we are launching so we are not seeing any pressure.

Answer: Colin Clark, Global Client Director
Yes I think it is in its early stages now that we are increasing the multi-asset platform to include more different products and we are benefiting from some switching from

GARS as you allude to. I think two examples that spring to my mind in the last 6 months. One of the interesting things we have done is we have taken GFS to the US marketplace in the Cayman structure. And one of our bigger clients in the US had a large exposure to GARS has actually seeded that Cayman fund through the switching from one to the other. So they are looking to rebalance their portfolio or reblend their portfolio now that they have an exposure to Libor +5% and now Libor +7% in the shape of GFS. So that is happening.

Another good example I think that is just beginning in the last 6 months, we have launched the Integrated Liability Plus Solution in the UK market which is our response to Defined Benefits plans that want to hedge or derisk and I think a number of clients in the UK institutional market in DB plans, that have had GARS exposure for the last 7-10 years are looking now to switch out of that into ILPS so another example of where that switching is taking place. The first example is about reblending in multi-asset, the second is about switching into something that is more appropriate for derisked scheme.

In terms of the actual pounds number, I will come back to you on that.

Further Answer: Luke Savage
In terms of the transitionals, yes it does relate to annuities. It was recalculated as at the year end off the back of some model changes we got approved in the second half of the year. And we have also taken the first annual deduction which as it winds down over 16 years we have effectively taken off one sixteenth which technically we could have waited until 1 January. So if you are trying to compare us to others you would have to look at what date did they recalculate their transitionals and have they or have they not taken that deduction.

<u>Question 4: Ashik Musaddi, JP Morgan Cazenove</u>
Hi good morning, just three questions. First of all can you give us some clarity on UK cost, it went up around £12 million which you flagged as around 2-3%. Is that sort of cost level increase in UK pension business that we should expect? I remember in past year you kind of saying that you are trying to maintain it on a flat absolute cost basis. So any thoughts on that?

Second thing is flows into Workplace pensions and Retail was relatively light compared to last year so what is going on there because it should be a bit higher given the growth in the asset side?

And thirdly, any colour on cross-selling from your pensions flows into MyFolio into SLI? Thank you.

Keith Skeoch
Luke do you want to do UK costs and Paul can take up the other two.

Answer: Luke Savage
So I think the story with UK costs, we have been building out the 1825 proposition and we have said that as we build that out, it is initially loss making, so that adds to the cost. And we have also taken on Elevate and within the cost base for Elevate we have got both a couple of months of operating costs plus some of the costs in the run-up to that acquisition closing. If you look behind at the underlying business, for example the running costs of our back book over the course of the year have gone down 5%. Some of the indirect costs of running our technology across the Pensions and Savings platform generally, that Keith alluded to, multi-year programme, we took out I think it was 90 heads in 2016 out of our technology team off the back of some of

those initiatives coming through. So in the short term, depending on timing of programmes and where things like Elevate costs come through you do see some bumps in the road, some noise, but we are confident that the underlying trend is downwards.

Answer: Paul Matthews
So on the Workplace side we have seen still the regular premiums through. So our regular premiums are coming through quite strongly still. We saw less single premium lumps of business coming across. And we are starting to see a number of inquiries this year, but for last year we did not see as many lumps come through as the previous year. If you take the regular premium business, our regular premium business was up on Workplace.

On the Retail side, again it was impacted a bit by Retail and Workplace on pensions freedom. So we have seen a number of people taking tax free cash. So in some areas here where people are exercising their pensions freedom monies they are taking some of their tax out. If you take things like Wrap net flows etc, I think the last statistics I saw, we were something like 50% up on any other company if you combine all of the net asset flows onto Wrap. We would look pretty strongly when you see the results.

The other question I think was cross selling into SLI funds. So to give you an example, in Wrap something like 20% of our funds on Wrap would go into SLI. I was looking at some figures the other day. I think it is something like, out of 200,000 customers on our Wrap platform and something like 142,000 of those will be in a MyFolio type of proposition. The cross opportunities for us with Elevate is a good example. So Elevate typically have had around 2% of investments with Standard Life Investments. Already the account managers that have come across with them are now seeing the opportunities that Standard Life Investments offers so I think it is quite a big opportunity for us to offer the clients of Elevate the far greater fund capability of Standard Life Investments, so good opportunity there.

<u>Question 5: Andy Hughes, Macquarie</u>
Hi thanks very much, Andy Hughes from Macquarie. Three questions if I could. The first one just some clarification on capital. So the £100 million recovery if you get it, presumably that is net of tax and would just be added to the capital Solvency II position? You have not included that in the capital so that would be a one-off benefit when you get the insurance recovery.

And then if I understand correctly on page 53, there is no capital in India, so if you were to progress the Max Life merger and ultimately sell your shares, the 90p or so you would get back would be all capital, because there is no credit in the Group capital from India Life?

And I guess the third question is really about how we should think about GARS. Obviously GARS outflows picked up in Q4, we can all see that. And you are distinguishing between the Wholesale part which is the retail part and the Institutional part. I am just curious, I haven’t seen any recovery in GARS performance which may happen as you have highlighted. How should we think about the GARS flows going forward. Should we think of the Institutional as a relatively sticky part of GARS and should we think about the Wholesale as a less sticky part? So effectively the pattern of outflows should slow down over time as the Wholesale bit runs off faster if things don’t change? Thank you.

Keith Skeoch

So if Luke takes the first two and then what sounds like a very complex piece of guidance Colin?

Answer: Luke Savage
Yes so on the insurance point, you are right, we have not taken any credit for it. If we do recover that will come to us as a credit through non-operating. That will translate into cash and that will flow into capital.

On India, India is on our books at cost. I think it is a little pre-emptive to talk about selling our shareholding in a combined entity where we are still working on getting the regulatory approvals, but technically you are right in terms of how that would flow through, but perhaps a little premature.

Further answer: Colin Clark
You make a couple of points, interesting points. The first thing is in terms of Institutional outflows towards the end of last year, I should note that we categorise the John Hancock relationship as an Institutional relationship, that is the way we manage it, that is the way we handle it and that is the nature of that relationship. But clearly some of the flows have the characteristics of retail. And so I think in that sense we are slightly understating the strength of the Institutional picture on GARS.

I think to your second point, I think the Institutional franchise is very strong generally, we have got very strong consultant support, not only across the board, we have 22 products that are categorised as Buy. And within the multi-asset suite we have got 4 buys and 6 holds from investment consultants. So I think there is a lot about that Institutional franchise that is very stable and very strong. And as we see recovery, I think we are already seeing it in terms of the nature of the client relationship discussions we are having as we are starting to see some stability come back into the performance and some improvement in the performance. I think that franchise ought to move forward quite well.

I don't think we are at all planning or see the world in the same way as you are alluding to in terms of Wholesale outflows. I think last year the vast majority of the outflow was to do with the Wholesale retreat. We see that stabilising and combining that with a stabilisation of investment performance in GARS. I think we could see the Wholesale exposure both in the UK and elsewhere around the world start to recover. Whether it is going to go back to the heydays of where we were 18 months to two years ago, I don't know, but I think we are planning on seeing some sort of stability in recovering that market as well. So clearly much more sticky in Institutional and clearly well endorsed by consultants and a recovering picture in Wholesale I think.

<u>Question 6: Andy Sinclair, Bank of America Merrill Lynch</u>
It's Andy Sinclair of BofA, Merrill Lynch. Three questions. So firstly on India which has become increasingly important part of valuation but a relatively small portion of the update today. Just wondered if you could give us any update on the merger process and how things were going along? And finally if you could say how much of a lockup there would be after the merger completes?

Second point was on the development expenses. You mentioned that these would be reducing year-on-year. I just wondered if you had any guidance for that going down further in 2017. I know you mentioned some development IT costs that might be coming through?

And third and finally, I realise it is a small part of the business, but on the spread/risk, you mentioned an adverse mortality experience of negative £8 million. I was a little bit surprised, I thought that most annuity writers were seeing positive mortality experience at the moment. I wondered if you could give us any update of what you are seeing that might be different there?

Answer: Keith Skeoch
So if I do India. I spoke to colleagues in India two days ago. We are waiting for the approvals to come through for the structure which will allow the merger of HDFC Life and Max Life to come through. We have always said that getting regulatory approval in India is a long, slow and sometimes tortuous process and it is living up to expectations. My colleagues in India tell me there is nothing to worry about it is on track. Luke?

Answer: Luke Savage
Expenses in 2017, we have a lot of moving parts around investments and so on, which is why we have not and are not giving specific guidance for any one year. And why we talking about driving cost/income ratio below 60% in the medium term. Recognising it is not going to be a straight-line reduction. We would stick with that guidance.

On the mortality point, there is a difference between experience we have seen in the year which was £8 million negative versus assumption changes looking forward which was a large part of the £42 million positive. So in terms of the overall longevity expectations, we are I think in line with the market in seeing positive numbers coming through. The in-year experience is largely a function of particular policies during the year and it is amazing how a few people with high annuities or high life cover can actually shift that number within a year.

Further question: Andy Sinclair
Sorry just one final point going back on India. Are you able to say what sort of lockup there would be after the merger?

Answer: Keith Skeoch
Yes there is a lockup on the 9% that we acquired to take us to 35% and I think Luke that lockup is 3 years?

Answer: Luke Savage
Interestingly the proposed merger structure has not been envisaged in any of the regulations so it is not quite clear around the merger what lockup that will create. So once the approval comes through, assuming the approval comes through as we expect, and there is then a point for us to clarify how the rules get interpreted around that lockup period.

<u>Question 7: Gordon Aitken, Royal Bank of Canada</u>
Thanks, it is Gordon Aitken from RBC. Three questions please. First just a follow-up on the mortality point. You are now using CMI 14, you were using CMI 13. You are already coming from a more prudent place than other UK Life Stocks who last year were using CMI 14. Now when you move to CMI 15, that has got a 4 month drop in life expectancy, CMI 16 when that is published that is going to be another 3 month drop. So should we expect another positive in 12 months time and then another positive in 2 years after that?

Second question for Paul, Budget is less than 2 weeks away, what do you expect the Chancellor to say?

Finally to Keith, you mentioned active fund management you feel will now become more important. I just wonder how to square that with the interim Asset Management Study? The FCA seem to have a problem with all sorts of areas in fund management. And what effect do you think that survey and the FCA will have?

Answer: Luke Savage
So on the mortality, I would perhaps refer you to Jonathan Pears after the meeting for the detail. But I know some of our peers just go straight to the tables. We don't, we have our own cause of death model. Mortality improvements that come through in those tables is just one of the inputs to that model. And we believe that our modelling approach is prudent. So if you get a sudden jump from one table to the next, it is unlikely you will see that come through in our numbers straight away because we are being prudent. But I would not want to say any more than that without it becoming forward guidance.

Answer: Paul Matthews
On the Budget, we are not expecting a huge amount. We have been signalled that they are going to give us an update on FAMR. So I think on the whole area of advice and guidance we are expecting to have some clarity as to the sales process of how we might be able to go forward with providing more information on a simplified guidance approach versus an advice approach. But other than that I don't think we are expecting too much at the moment.

Answer: Keith Skeoch
On the Asset Management Review, a couple of takes on that. I think they are quite rightly asking people to make sure that where you have active management, and you are charging a premium price for a premium product you get that in place advisedly. You know get that the wrong way round you have got problems. So all I can say is the contact we have continually with clients and customers is, as long as you are innovating, as long as you are doing things to meet their liability and their changing needs, then you can price that appropriately. And of course you need the innovation and the performance in the right place. So if there is an increased spotlight on that, I actually have no problem at all with that issue.

The other thing the Asset Management Review is focusing on is the governance of some of the mutual funds and pointing out that they need also to be focused on customer benefit. Now for those that are familiar with what went on in the United States, there was a large leap from active to passive because the DOL legislation said that you had to demonstrate fiduciary duty of care. And actually quite a lot of IFAs in the United States did that by basically moving the same way as everybody else and that generated an increase in passive.

And one of the things that Trump is talking about rolling back is precisely that DOL legislation. So it will be quite interesting to see whether he does that and actually whether that starts to have an effect in the UK. The one thing I can say is whether it is our SICAV funds, whether it is our OEIC funds, we already have mutual fund boards in place that take really seriously their fiduciary duty of care to the customers in our mutual funds range. So it raises issues, but it is life and you need to get on with it. I actually think the more volatility, the more clients will actually start to want as Rob says, absolute return, volatility dampening solutions. And our experience is you can see from the £19 billion we have launched that actually clients are quite attracted by those solutions.

Further question: Gordon Aitken

If I could just follow up with a few words about Paul, it is not often in our sector that we have the benefit of someone on the podium with your sort of years of experience and I am not just talking about reading about insurance and managing people who do it but you have worked right through the heart of it and it has been a huge benefit to us. I have been lucky enough to work with you and I particular remember the credit crunch period where financial services companies were getting a bashing and the work that you did with the IFAs, the work you did with the customers of Standard Life, but also probably more importantly the people, enabled Standard Life to come through that period even stronger. So I think on behalf of all the analysts here just to wish you all the best in your retirement.

[Applause]

Question 8: Colm Kelly, UBS
Hi Colm Kelly from UBS. Thank you for taking my question. Just on GARS and you talk about the strength of pension consultant ratings which obviously are the key determinant to Institutional flow resilience for the fund. Just in the context of one large consultant changing their rating in the second half of last year, can you give some colour on how the broader ratings of pension consultants have moved through the year? And maybe just some colour on dialogue you are having with them viz-a-viz what type of concerns they have or what areas they are confident in? Thank you.

Answer: Colin Clark
Just looking for my list of ratings. I mentioned that we have 22 across the house. We have 4 multi-asset ratings and we have 6 hold ratings. We only had one downgrade to sell last year and that was from an important but not leading if I can put it that way, not large investment consultant in the UK. Clearly that was disappointing.

I think the nature of the conversations we are having with investment consultants is ongoing. They focus on the things I think that are important which are about people and processes and methodology and risk construction in the portfolio. I think as ever if they have endorsed a product and got clients in that product over a number of years, then they want to see a continuation of those processes and people and product. And I think we have been able to demonstrate that and I think that is why we have continued to enjoy their support.

I think, as Keith alluded to earlier, it is a little early to tell. Over the last 3-4 months performance has stabilised, but I think that sticking to our processes is definitely to some degree being vindicated. And I don't detect in any of the consultant conversations that we have had that there is any imminent change to that sort of picture.

Question 9: Barrie Cornes, Panmure Gordon
Morning, it's Barrie Cornes, Panmure Gordon. Just one question really. I am thinking about your cost/income ratio and your essential PI claim. You had one a few years ago, I recall a very large one as well. Do you think the renewal going forward is going to have a material impact given the likely cost, particularly after having two large claims?

Answer: Luke Savage
That will be a discussion we and our brokers will be having with the underwriters.

Further question: Barrie Cornes
Is there any co-insurance or any large excess being introduced?

Answer: Luke Savage
There is a £25 million excess on the policy.

Barrie Cornes
Okay, thank you.

Question 10: Ben Bathurst, Société Générale
Hi Ben Bathurst from Soc Gen. I was just wondering could you give us your view on what the demonetisation impact might be on your JVs in India, the life and asset management businesses there?

And secondly in the UK, Keith you made quite a positive comment about Workplace, you said you thought the market was starting to play more to your strengths. I wondered revenues have been stabilising now, do you think we can think more positively about revenue margins as well going forward? Or maybe just give some colour on outlook on revenue margins for Workplace? Thanks

Answer: Keith Skeoch
If Paul takes that. Demonetisation in India for those who are not aware was this announcement by Modi that suddenly removed some rupee notes from circulation. For those of us that travelled to India, it was quite a difficult period. You had a wodge of money that you could no longer use actually. I think the charities benefited quite a lot from that.

In terms of the impact on the insurance business. In terms of flow, I don't think it is having a major impact. Where it will start to have an impact is that one of the real issues in India has been the constant battle against fraud. And one of the things that demonetisation is doing is creating a competitive advantage with those who are strong adopters of digital technology. And HDFC Life is in the front of that. So when you go and you look at the way in which they sell life insurance now, they will take a tablet and if you have a PAN number, which is a national insurance number, you have a finger print and it has a camera. They will get security from that. You can get an electronic signature with ID verification on an iPad and actually it does away with all the issues that people have had to cope with over the years. And actually if you think about that in terms of cost benefit and cost/income ratios actually it has had a major improvement. So as far as I can see and I am quite impressed with the digital suite of technology at HDFC Life, they should be a major beneficiary and I think you will see in the life assurance market there more flow probably going to the bigger players.

Answer: Paul Matthews
The Workplace one is an interesting one. I have been sitting here for quite a few years talking about the potential opportunities here. I mean there are £950 billion I think in DB. About 43% of that is unbundled. So that means the admin is done separately to the investment. And Keith mentioned there are some inquiries in the market today. I think you are now starting to see companies through auto enrolment, a focus on costs. I think the costs of running unbundled is high relative to what you can get in the market today. You are paying an administrator and you are paying an investment manager. So I think you will start to see the £300 billion in DC, the predictions are there will be £900 billion in DC in the next ten years.

So I think you are going to see some big lumps and chunks moving. I think as far as margin is concerned, I don't think the pricing is going to change hugely, but I think the cost to serve is going to reduce. And I will give you an example here. We have taken I think 6000 to 7,000 schemes over the last few years, auto enrolment. They all selfserved. We have about 28 people are looking after that. Over the next two years the work we are doing on simplification of our systems will be putting around 14,000 employers through that same system and that will be looked after by 10 people. So the movement in what we can do in how we service employers is moving well. And the demand I think for large employers to reduce their cost base by simplifying their pension solutions as to the way it is run, I think is something the market has been talking about for a number of years and we are just starting to see a few inquiries at the moment of companies starting to look at that.

Question 11: Luiza Santos, Goldman Sachs Asset Management
Hi Luiza Santos from Goldman Sachs Asset Management. So a couple of questions. The first one is, I wonder if you could give us some more guidance on the development of the regulatory review of the Solvency II ratio? So I think you said that is large part of that was due to approval and changes by the regulator. And also are the sensitivities similar to those shown own the shareholder view?

And the second question is just on the development of the AUA. So a large part of that was due to market movements. And I think you said that a third of it was due to FX. Can you give us some clarity on the other two-thirds of it, was that mostly from UK rates decreasing?

Answer: Luke Savage
So on the first point, on the regulatory view of the Solvency ratio, from our perspective, I have said it before, I will say it again, we have a strong Solvency ratio, but it is not something we focus on. It is distorted by a number of anomalies such as the stronger our pension scheme gets and the more asset risk there is in our pension scheme surplus, the more the ratio gets diluted. And so there are a few things within it which are anomalous and end up providing a distortion to any comparison whatsoever between us and our peers. It has improved substantially because of the recognition of the capital that was previously trapped down in Standard Life Assurance Limited that we did not recognise at Group. So whilst the number has bounced significantly I would steer people away from using this as any kind of measure. And certainly if you think how that measure moves over time. If you want to think about any kind of Solvency strength, look at the investor view. And our strong preference is that you look at us like you would any other fee based business. Look at our ability to generate cash because that is what funds investments and dividends and so on.

Keith Skeoch
And on AUAs? Impacts of currency?

Answer: Luke Savage
Currency was about one-third. Off the top of my head I haven’t memorised the breakdown of the other movements, but that is something we can give you a feel for afterwards.

Further answer: Keith Skeoch
I think actually the details are pretty much in the back of the Press Notice and in the Annual Report and Accounts.

Question 12: Andy Hughes, Macquarie
Hi guys, Andy Hughes from Macquarie. I guess the question, the bit I don’t really understand about the comment about the 45% cost/income ratio. So EBIT margin guidance in SLI moderating. Because if I think about SLI assets during the year shown on page 21, sorry the fee revenue, obviously it grew with markets during

2016. And obviously one of the components in there is HDFC Asset Management which I am expecting to grow very rapidly next year as well. Given you have launched these 16 funds last year, and you are saying GARS outflows are going to moderate from the Wholesale side. What am I missing? Presumably it is the costs that are going to increase next year in SLI, if it is not MIFID 2, you have ruled that out. So what is the missing element here?

Answer: Keith Skeoch
I think you are missing the point.

Andy Hughes:
That's why I am asking the question!

Answer: Keith Skeoch
I made the point that structurally it wasn't going to go much higher, structurally. As much as I would love to and I think I have said this before. It is very, very difficult on a six monthly basis to control all of the elements that allow you tightly to target an EBITDA margin. What you can get yourself in is the appropriate level and territory. So we, if you look at a 45% EBITDA margin, is it sustainable around those levels? It probably is, but actually for our mix of business, Institutional, Wholesale at Standard Life Investments, that is pretty close to, well it is in the upper quartile, if not the upper decile. So the actual movements are going to depend on the blend of the mix of business and revenue yield that comes in. Will there be a significant disturbance away from that? We think not, we think it is sustainable and it will fluctuate.

<u>Question 13: Anasuya Iyer, Jefferies</u>
Hi, it's Anasuya Iyer from Jefferies. My first question was just on MyFolio. I think you launched SICAV a few months ago. I just want to understand if there is any significant impact you can see from that? Or for example if you could tell us how flows changed when you launched your GARS SICAV after the OEIC?

And the second question was on platform consolidation. Do you think there is more platform consolidation that could happen in the UK? And if so would you participate or do you need to focus on the Elevate acquisition? Thanks.

Keith Skeoch
Colin on MyFolio and Paul on platform consolidation.

Answer: Colin Clark
Yes you are quite right, we launched it a couple of months ago. We are in the early stages of discussions and in one particular country, which is Germany, where we see some disruption to the adviser market and we think we can help that disruption with a product like MyFolio which has been very successful. Although I should emphasise of course that it is a MyFolio SICAV and therefore it is available in multiple jurisdictions, Canada, Asia, all sorts of different places.

So I think that is a very good example of taking an existing capability, an existing innovation that was some years ago now, 5-6 years ago and taking it into a pooled vehicle in an efficient way in the UK market for the adviser market, and then thinking about taking that same intellectual capital if you like and re-wrapping it into other products you can then take to lots of other markets. And I think that is a characteristic of our new product development activity over the last couple of years. Last year for example in addition to MyFolio SICAV we had the Enhanced Diversified Growth Fund which we put into a SICAV. We had Emerging Market Debt unconstrained into a SICAV. We took GFS as I was mentioning earlier and put it into a Cayman fund. We took GFS and put into the Hancock Platform. So these are multiple examples. And back to the earlier point about efficiency in the platform. These are multiple examples of where you can take a capability and re-wrap it into different markets. Specifically I think MyFolio SICAV in Germany could be quite interesting if we can extrapolate what we have been doing in the UK with it.

Answer: Paul Matthews
Platform market, yes there are too many platforms out there I suspect to survive. And we look after around 3,000 IFA firms today. I think there is about a crossover of about 300 between the Elevate platform and ourselves that we both serve. So what you will see today is a number of IFAs that will have multiple platforms and probably 2 or 3, maybe have some of the old fashioned supermarkets. So they have typically had some clients on certain platforms and some on others. I think the old fashioned supermarkets will cease to exist. I think you will need a full wrap functionality. So I think you will see IFAs have reduced the number of platforms they are using, to use a fully functional one platform.

The other markets worth keeping an eye on is the DFM market. I think there is probably around £500 billion, £600 billion out there in DFMs, I think we have 71 DFMs now use our Wrap platform to market their portfolios. So I think again the Wrap platforms do offer a lot to the market and I think if you have got a strong business with a platform you are in a good place. If you have got a weak platform and a weak business you are in a poor place.

Question 14: David Hare, Santander
David Hare from Santander. I would like to know a little bit more about your strategy in the US, given your earlier comments as well on the relaxation potentially of the regulation. How do you see that benefiting SLI?

Answer: Keith Skeoch
We really have I think a dual strategy in the United States where we have worked with platforms and wholesalers like Hancock. And I think Colin we now have four funds on the Hancock platform and we are looking at putting a couple more on so that helps us extend. That is a really useful platform, not only to put your funds on, but as you work with these people you get a really good understanding of changing client needs. We have extended onto other platforms as well so we have some emerging markets funds on the Nationwide platform.

And as well as working with wholesalers we are also working quite hard with consultants and going direct to institutions as well, because one of the benefits of the retail and wholesale platforms is it gets your brand name out there and that is really what the Ryder Cup sponsorship was all about, if you had been at Hazeltine, you will have seen Standard Life Investments plastered all over the course. Made me quite proud actually. What made me even happier was the fact that the name recognition was getting out amongst American institutions and we ran seminars and investment seminars around that time. So one of the things that is perhaps less visible is some of the flow that comes from the big institutions around the United States. So we run money for several large, what here would be described as public sector pension funds, and they typically are in a combination of stuff including multi-asset strategies and that stuff is actually quite stable. So we will continue to work, grow, build up the Boston office. The Boston office has raised about $13 billion of flow over the last 4-5 years. It now employs 100 people. We will continue to build it out. But let me stress, we are firmly focused on taking the world to the United States and very firmly focused on a medium term outlook rather than chasing flow in what is one of the more competitive markets in the world.

Further Answer: Colin Clark
Just two things to add really. Keith has given you a flavour of the channel diversification if you like moving away from wholesale into institutional. We have won clients in the Taft Hartley Insurance sector and in the endowment and foundation. And so the beginnings of quite a nice spread in terms of channels of distribution. But the other thing I think is, don't lose sight of the fact, now I think we have 9 investment products live in the US with US investors. And clearly things have moved on quite a bit from 3-4 years ago when the entry point was with GARS and was with Hancock. It is now much more diversified client footprint and a much more diversified product exposure into the US.

Keith Skeoch
Anymore? No. Okay, well I think it just remains for me to do two things. One, thank you for coming and listening and in particular, thank you for your questions.

And also to add my plaudits to that of Gordon's for Paul. I have been at Standard Life for 18 years. It has been a pleasure to work with Paul. And actually I think we were working out, we have been on the platform together here since 2008, so it has been a real pleasure. I should add that Paul is retiring so he is stepping down off the Board. He will be around at Standard Life for a few more months to help both me and Barry O'Dwyer, so we are not totally losing his expertise in the short run, but it is the last time he will be appearing on this platform. So on behalf of your colleagues Paul, thank you very much.

[Applause]

End of Presentation