Full year results 2017

Friday, 23 February 2018

Keith Skeoch, Co-Chief Executive

Okay, good morning, good morning. If it's at all possible to switch off your mobile phones, Blackberrys and other such devices. Welcome to Bow Bells House, the London home of Standard Life Aberdeen. I would guess you've all seen today's announcements, so our presentations this morning will provide a major strategic update, as well covering our results for 2017. Once we've been through the presentations, Martin, Bill, Barry and I will be delighted, as always, to answer your questions.

One of the things I want to be very clear from the outset is that we regard the transaction we've announced today as a means of completing the transformation of Standard Life from a capital-heavy life insurance company to a fee-based, capital-light, world-class investment company. It's a process – and I think a number of you have been with us on the journey – that started with demutualisation in 2006, picked up pace with the sale of Canada in 2014, accelerated in 2017 with the merger between Standard Life and Aberdeen Asset Management.

It's also, I think, equally important to take on board, however, that as we simplify our business and we simplify our balance sheet through the disposal of our capital-heavy insurance books, we will also retain exposure to retail customers and their rapidly-growing pool of assets. We do this through the Standard Life businesses we retain, the strategic partnership we create with Phoenix, as well as our existing strategic partnerships with HDFC Life in India and Heng An Standard Life in China, where we are also pursuing a pensions licence.

The result of doing all this is a well-diversified, world-class investment company. I'll come back in about ten minutes or so to talk about the opportunities we have to grow this business for the benefit of shareholders, clients and our people. But let me now hand over to Martin who's going to take us through the financial and strategic benefits of the transaction and provide an update on our integration. Martin.

Martin Gilbert, Co-Chief Executive

Thanks Keith. Good morning everyone. As Keith said, this is a momentous day for Standard Life Aberdeen. I'm just going to give you a bit of background on the transaction.

This completes the transformation, as Keith said, to a fee-based, capital-light business. We're delighted to have merged Standard Life into the Phoenix Group for a consideration of £3.24 billion, including cash of £2.28 billion and a 20% stake in the Phoenix Group.

We genuinely believe Phoenix and Standard Life are a more natural combination because of the capital-heavy nature of the two businesses and the synergies, the capital synergies, that can be achieved by combining the two businesses. And we're very pleased to have a stake in what will be Europe's largest back-book consolidator, and obviously keeps our close relationship with them in a fund management sense.

It creates, I think, also a very good opportunity for our people to grow this exciting business going forward. And as part of the transaction Phoenix have committed to keeping the operational headquarters of Standard Life in Edinburgh. And more than – almost 60% of the combined group's people will be based in Edinburgh.

One of the things we wanted to do as part of the transaction was to retain the fast-growing, attractive retail platforms and financial advice business. And from this slide you can see why we wanted to do that. These businesses have had sales of about £8 billion last year and have had five-year compound annual growth rate in AUM of 35% and revenue of 20%. And it gives us opportunity, with the merger of Standard Life to Phoenix, to access 10 million-plus individual customers.

So, going back to why we've done it, it's a mutually-beneficial partnership with opportunities to drive further value and growth for shareholders. But that's not all. It gives us security over AUM that we manage for Phoenix; it enhances further growth opportunities; we will become Phoenix's asset manager of choice; and very importantly they have ambitious plans to grow the business by acquiring further back books of business going forward. And as I've said already, this access to 10 million-plus customers they have.

And in order to do that, we decided not to take the entire consideration in cash but we were very keen to continue a strategic partnership in Phoenix. So we've taken a part of the consideration, almost £1 billion of it, to take a 20% stake in Phoenix. And we think that we will have to contribute further capital to them to help them grow the business, and we would like to keep our stake at that 19.99%.

You know this sort of slide really I panic at so I'm going to hand over to my colleague, Barry O'Dwyer, to cover this slide and the next slide, which are insurance-type slides.

Barry O'Dwyer, CEO Standard Life

Okay, thanks Martin.

Martin Gilbert: This is why we've done the deal, by the way.

Barry O'Dwyer: He's not joking. So, Standard Life Pensions and Savings operates, as you probably know, under two sort of brands in the UK, so Standard Life Savings, which houses our platforms, and Standard Life Assurance, which has the large insurance mature books. And on the left you've got mostly Standard Life Savings in the retained business, so we're going to keep Wrap, Elevate and Parmenion and the financial advice business that we've got in 1825. So those numbers, the £58 billion and the £182 million, track back to the numbers that Martin spoke about a couple of slides ago.

If you look on the right-hand side, then, we've got £159 billion of assets and £961 million in revenue but much slower rates of compound annual growth. But just so we're all really, really clear about what's in the perimeter, if you like, what's in the sale, it's a combination of retail life and pensions, which is mature and new, spread risk, which is dominated, obviously, by the annuity portfolio – Ireland, Germany and Austria, those branches and the workplace business. So all of that forms part of Standard Life Assurance and that's what's being sold to Phoenix.

If I move on to the next slide, Martin mentioned the fact that we see Phoenix as being a more natural owner for Standard Life Assurance and this slide sets out some of the reasons why.

So it does include – the Assurance company does include some large mature books that will inevitably run off over time. It contains with-profits products with valuable customer guarantees that are complex to manage and have considerable governance overlay. So, scale in this part of the business is increasingly important and we believe that Phoenix have the sort of efficient management systems in place to deliver on that scale and to deliver, ultimately, value for customers.

Martin mentioned that we will become the biggest part of – SLAL will become the biggest part of the pre-eminent life fund consolidator in the UK, which Phoenix will be, and importantly for our people, we'll have operational headquarters based in Edinburgh.

Martin Gilbert: I think one to add, Barry, is they were also keen to acquire the Irish and German businesses because they feel that will be an important part of their growth strategy in the future. So the deal was very – the merger was very beneficial to both.

Maybe I can just give you a couple of slides on the merger update. We've increased the target merger annual cost synergies from £200 million to at least £250 million. So as not to create panic within the fund management teams in Edinburgh, who might be listening to this, this is purely achieving more of the initial synergy plans that we had. As you know, we took a bit of a haircut on our synergies and this is just really achieving them. So the merger integration is on track. The distribution and investment management integration is largely complete and about 2,600 of our people are already co-located into merged offices globally.

So, just going back to, really, the reasons for the merger, nothing has changed. We did this deal to – we did this merger to build a strong platform to compete globally. We've had broad support from our clients. Wherever we go in the world, everyone agrees with the strategy; you either have to be big or small in asset management. We've got 43 rated strategies across a range of asset classes and secured two further buy ratings in 2017. And for our people there's been a very positive reaction. We're rated – we're ranked in the top ten asset managers globally that people want to work for, and we've largely retained our talent, going forward.

So, as I say, the integration is on track to build a strong platform to compete globally. I'm going to hand back to Keith.

Keith Skeoch: We are making good strategic progress. The transaction shifts the shape of our business and our balance sheet, integration is going well, so we're well on our way to delivering our vision of a world-class investment company whose purpose is to invest for a better future. Good progress. But Martin and I and the executive team are well aware there's a fair bit to do if we're going to take advantage of all the opportunities that are out there and available to us.

One important foundation for taking advantage of those opportunities is we are convinced that our strategy is fit for purpose. And we're going to continue to focus on the five key strategic objectives you see at the bottom of this slide to make sure that we deliver.

The transaction, of course, simplifies our business and leaves us well placed to take advantage of the global trends shaping the savings and investment landscape.

I'm not going to dwell on these trends at all, I suspect you've seen this slide a few times, but what I do want to say is that these trends accelerated, if anything, in 2017. While Standard Life Aberdeen were by no means immune – investment performance, for instance, slipped in difficult markets – in some areas our strategy was a key and clear source of resilience. Demand for passives may have surged but new active, when you look forward, is a rich source of client demand. Fee compression for traditional asset managers has taken – has been quite intense. But as Bill will show, our innovative and well-diversified product suite has allowed our revenue yield to hold up, actually, pretty well.

Finally, whilst the institutional market, for sure, was difficult as defined benefit schemes continued to struggle, retail flows accelerated. And we benefited from the tailwinds behind the platforms which, of course, we retain as part of the transaction.

I think, more importantly, these sources of resilience in 2017 are also sources of future opportunity for our simplified business. There's a real sense of opportunity across the business from the strong relationships we are developing with clients and customers throughout the pensions and savings landscape. As a result of the transaction, we'll continue to keep our leading IFA franchise and our market-leading adviser platforms.

We'll continue to globalise in the pensions market and looking to build on our expertise in providing investment solutions for DC platforms. We also have a number of liability-aware products that will allow us to leverage that sense of partnership with some of the largest DB schemes around the world.

Insurance clients have long been a key strategic objective for the firm. Our transaction today means that we're creating a strategic partnership, we're becoming the asset manager of choice and the provider of specialist solutions with Phoenix, something we can take to the rest of the world. I think it's important to note that we already manage assets for a highly diverse range of about 100 insurance clients around the world.

Finally, as we build and forge these new strategic partnerships, we will look to be stronger players in wholesale and in wealth platforms, as we build on the partnerships with the likes of Hancock, Mitsubishi, Sumitomo and Bosera in China.

We won't, of course, build those effective relationships unless we have the investment capability to serve those customers and clients in the right kind of way. One of the huge strengths that came from the merger was the complementarity of our investment capabilities. And I was very struck by – I was at a conference just before Christmas in New York. A lot of the world's asset management CEOs were there and somebody had the sense to ask them the question, what was their main strategic product priority over the next few years? And you can see this long list of answers.

What struck me back in December and still strikes me today, is when you look at our capabilities, there's a pretty good and effective mapping between what we have, as strong strategic positions, and the sense of opportunity that others are seeing around the world. And that isn't actually just a theoretical proposition.

If you look at the product pipeline that we continue to launch to take advantage of “New Active”, including in last year, we are launching a whole series of innovative solutions. And actually these solutions are gathering assets. It will take time for those assets to build but actually I think that leaves us in a really good place. And of course as performance improves, which we believe it will, we'll see that start to accelerate.

I think the other thing, of course, the merger brought strategically was that sense of scale; scale is more important than bulk. And as you can see and we've heard Martin say many times: you've got to be big or you've got to be small in this business; you don't want to be in the middle. So you can see from the yellow dotted line that there is, in effect, an asset management smile associated with generating scale. And one of the things that certainly the merger brought to us was scale. And actually future scale, again, will be helped by the fact that we secured the management of the Standard Life assets and we look forward to seeing more assets coming on the platform via Phoenix.

Scale is one thing and it's certainly our ambition but both of us have a proud history, I believe, of retaining our financial discipline. And on that front I think the cost/income ratio is a really, really important part of that. And as well as the benefits we're seeing from the discipline being applied to the execution of integration and the fact that we're saying we now think we'll do £250 million, that medium-term ambition of driving the cost/income ratio down to 60% very much remains in place for the executive team.

Of course that will help generate growth in top line and as I said, scale is important, but actually if you're going to sustain that growth you really need diversification. And both the merger and the transaction point us in the direction of ensuring that we have diversification.

Global diversification is absolutely clear but if we look at the impact of the transaction – and I just want to reiterate that this is another source of diversification because we retain access and exposure to retail assets, strongly-growing retail assets that are in insurance wrappers around the world but are done and retained from a very – through a very efficient capital structure. It's not just in the UK. We mustn't lose sight of the fact that we have a lot of exposure to retail assets elsewhere in the world through, for sure, India and China and there's an awful lot of customers that are in place.

On India, a tiny reminder that it isn't just about the asset growth that's important. Actually we have been very focused on delivering value. And we have had a very successful IPO of HDFC Life and there is a proposed IPO of the asset management company on the shelf, which is all about delivering value through to shareholders.

So, the other really important component of delivering a success and strategic success over the future – anybody who knows anything about investment companies knows that success is all about culture. And actually one of the things that I think has been a really pleasant surprise for both Martin and I, is our people. Our people have really come together in a very, very good way. We've put about 2,500 people together in offices. Much, much more important; I can see the investment teams getting on, I can see them sharing insights, I can see the way forward in terms about how we define our future investment philosophy. We can see our operation and technology teams working very well together. So actually creating that world-class culture is well underway and it's something I think we'll come back and talk about, an update, at the interims. Absolutely critical to where we're going and I'm pleased that we're making, I think, pretty good progress on that front. It's an area that we will need to continue to invest in.

Of course what I've really talked about is the need to invest in those strategic objectives going forward if we're to take advantage of all of those opportunities that are in front of us. But we are very well aware that we need to balance that investment for future growth with maintaining our financial strength, and also our duties to shareholders. What I can say is if you look at where our liquid resources stand pre and post the transaction, we are going to be in a good place to both invest in the business, maintain our financial strength and make sure that we do the right thing for shareholders.

So strategy is being executed. I think we are well on our way to building a world-class investment company. Clearly the merger, which is going well, has accelerated a little bit of our strategy. The proposed transaction that we've talked about today completes the transformation to a capital-light company. And the foundations we believe are firmly in place for generating not just top-line growth, we'll remain focused on financial discipline, driving down those unit costs. And we believe we will have the financial strength and cash generation to drive that growth and continue to support our progressive dividend policy.

With that, I'm going to hand over to Bill who's going to talk to us about the full-year results for 2017. Thank you.

Bill Rattray, Chief Financial Officer

Thanks Keith and good morning everyone. Let me start just with a quick overview of the year. We've increased the assets under management and administration by 1% to around £655 billion. Fee-based revenue has increased by 3% year on year. We have increased the cost/income ratio slightly in the short term, partly as a result of one-off non-cash charges. But as Keith referred to a moment ago, still very much on track – particularly with the additional level of synergies we've identified – still very much on track to drive that cost/income ratio down in the medium term.

So, overall, adjusted profit for the year pretty healthy at just over £1 billion and diluted EPS of 28.9p. Cash generation has again been very strong and that's allowed us to grow the dividend by a further 7.5% to 21.3p per share.

Just going briefly through the face of the income statement, you can see still very healthy revenue base, 95% fee based, an increase in spread/risk margin year on year, which we'll come back to briefly in a few moments. And you can see towards the bottom of the page, a very healthy increase in the share of profits from associates and joint ventures, principally the Indian joint ventures.

In terms of the assets under management and administration, pretty stable year on year. You can see we've still had some outflows but an improving position there, which I'll come back to. The impact of the outflows offset by healthy markets and performance.

And the key, of course, is the growth channels and the position here, in terms of net flows, as I mentioned a moment ago, is improving. Within Aberdeen Standard Investments still a net outflow but offset, to an extent, by continuing good increases in net inflows within Pensions and Savings. And the sum total of those two at the bottom – you can see that the impact of net outflows for 2017 was 3.7% of opening assets as opposed to 6% in the previous year.

And in terms of looking into Aberdeen Standard Investments I think the – what I'd like to talk briefly about here is the chart on the right-hand side. You can see the message we gave in the previous slide of improvement in the net flows year on year. And you can see with one – effectively one exception that is happening across each of the asset classes. And it's worth saying, just in passing, the reduction – the slight worsening in multi-asset is effectively due to the GARS position which you've all looked at before. The point there is, of course, that the outflows in GARS only started in the fourth quarter of 2016, so there is effectively a timing mismatch.

Within Pensions and Savings a pretty healthy picture in terms of net inflows, 7% of opening growth assets under administration. And although there's some small expected outflows from the mature book, the benefit of markets and performance has added to the position just to lead to very healthy growth in assets.

Looking at Aberdeen Standard Investments, the blended fee margin, Keith referred a few moments ago to the – we're all aware of pressures in the industry. Our own margins have held up pretty well in the year. We do recognise that there may be some short-term reduction in the overall blend of 51 basis points in the growth channels. Really that's just as we transition, some of the outflows are still within slightly higher-margin products, such as GARS, such as equities. But we are seeing good traction in the wider business, and the outlook for the medium and longer term we believe is pretty healthy. The revenue margins on the mature book are pretty stable at just short of 14 basis points.

And within Pensions and Savings a similar story. We've seen a little bit of a reduction in the blended fee rate within the growth channels for the year, largely as a result of the mix shift as the platform business, particularly adding Elevate for a full year, have impacted the overall flows. And the greater proportion of AUA and flows coming from large employers within Workplace. And again, the picture on the mature books is pretty stable.

Spread/risk margin, as you saw on the other slide, is up year on year. At what we might recall a recurring level, it's been pretty stable year on year at £74 million compared to £70 million. The big boost in 2017 has come really from some improving mortality figures which have been earned during the year, which I'm sure you'll recognise is not going to be a recurring trend year on year.

Cost/income ratio, as mentioned earlier, up slightly on the year, largely as a result of a couple of non-cash one-off items, as we've aligned the accounting of the Standard Life and Aberdeen groups. But just to reemphasise, with the benefit of the increased cost synergies we expect to come through over the next few years, we do see that trending back far more towards 60% or thereabouts.

Cash generation has been very healthy again and you can see the impact on the right-hand side, boosted by – in addition to the operating cash flow, boosted by the proceeds from the sale of a small stake of HDFC Life in India.

And finally, just to remind you, on the dividend, an increase of 7.5% for the full-year dividend, maintaining the record of very steady year-on-year growth over the last 10-11 years.

And with that I'll hand back to Keith.

Keith Skeoch: Great, thank you Bill. Quickly just to summarise, we're well on our way and making great strategic progress to building the well-diversified, world-class investment company. The merger, as we know, to create Standard Life Aberdeen accelerated our journey. Today's transaction and the new strategic partnership that comes along with it completes that transformation. We have simplified our business and we have simplified our balance sheet, so the foundations to take advantage of the opportunities that lie in front of us are well in place.

We have big core strengths in asset management. We have access to fast-growing retail assets through the retained market-leading platforms, our Indian and Chinese businesses and the growing mature retail books that will come through the strategic partnership with Phoenix.

Our ongoing focus will be on financial discipline and making sure we drive down those unit costs over the medium term. And we believe that together that will create the financial strength and cash generation to both drive growth and support our progressive dividend policy.

With that I'd like to thank you and we would be delighted to take your questions. And Gordon had his hand up before – well before everybody else. Gordon?

<u>Question 1: Gordon Aitken (RBC):</u>

Thanks Keith, Gordon Aitken from RBC. Now, three questions please. First, it was on the Wrap platforms, you mentioned the revenue was £182 million. If you just tell us what the profit associated with that is, please?

Secondly, the embedded value was – and last time you reported, it was £4.6 billion and that was the end of 2014. Now you're selling for £3.2 billion, so if you just square those two numbers for us? And I certainly didn't ever tell anyone that an open business was worth just 100% of its embedded value.

And finally, Standard Life Assurance, SLAL, given its size and expertise could certainly have been a consolidator in its own right. I mean, 11 years ago in 2007 Standard Life bid for what is now Phoenix, so why did you not think about going down that route, where you are the buyer, rather than the seller? I know you still obviously have 20% exposure to that, but why not 100%?

Keith Skeoch: Okay, if I can deal with that last question first, I think we'll go to Barry on the platforms and then on Bill on the financial questions.

We've always had a view and it's been a long-term view that the UK and Europe needed a consolidator of choice. That consolidator of choice for closed books has to be incredibly efficient in the way in which it administers the assets. It also has to have an appetite to deploy a Solvency II balance sheet in the acquisition of those assets and their long-term growth. So for some time it's been quite clear that Standard Life wanted to build a capital-light fee-based business and that essentially has been right at the heart, clearly, of Aberdeen's strategy. So helping to create the consolidator of choice, which brings flow to us in the future and actually, as Martin said, provides a natural home for the assets and for the people that are associated with administrating, was always something that was part of our strategic agenda. Barry?

Barry O'Dwyer: Yeah, thanks Gordon. We don't break out the profits on Wrap in the statements but Standard Life Savings Limited (SLS), which houses Wrap and Elevate, is, I suppose, a reasonable proxy. SLS gets about two-thirds of the revenue on Wrap, so two-thirds falls to SLS, one third falls to SLAL, by providing – SLAL provides the SIPP to the Wrap platform, as you probably know. The profit on SLS is about – is low-20s millions, so you can probably work back to what the likely profit is on Wrap.

Keith Skeoch: Bill, on the financials and the embedded value?

Bill Rattray: Sorry, I didn't pick up the detail of the question, Gordon.

Gordon Aitken: Yeah, so the EV was published last time, £4.6 billion end of 2014 and you're selling today for £3.2 billion, so just to square those two.

Barry O'Dwyer: Yeah, I suppose, as you know, Gordon, we haven't published EV now for a number of years. We would have to go back and reconcile, which is, as you might imagine, an enormous task. So we don't – we're not published an embedded value number today and we haven't done so for a number of years.

Keith Skeoch: But you can think about it as a percentage of own funds. And as a percentage of own funds I think this is quite an attractive deal for us.

Keith Skeoch: Yeah, I think this is the most Phoenix have ever paid, by a considerable margin, for a percentage of owned funds.

Gordon Aitken: [Inaudible].

Keith Skeoch: Sorry?

Gordon Aitken: They say this is cheaper than the [inaudible].

Martin Gilbert: Well, I don't know how they've got – I think it depends if they include the reserves or not. I can understand that they want to show that but that's surprising because they claim it's the most they've ever paid for a closed book of business as a percentage of own funds. But they're using a different purchase number than we are, as you can probably see, so it depends which purchase number you believe. I know what we're getting in cash, so I'm quite happy to go with our number.

Question 2: Jon Hocking (Morgan Stanley):

Thank you, it's – morning, Jon Hocking from Morgan Stanley, I've got three questions please. You were a little bit vague in terms of the use of cash. You've obviously got a lot of cash coming into the group. Given the share price in recent weeks, I would have thought that sort of returning some of that to shareholders would be a big priority. Can you talk a little bit about what the priorities are for that cash pile?

Secondly, just in terms of the ongoing dividend security, now the group's got a fantastic dividend track record post-demutualisation. Looking back in recent years, a lot of that is – a good underpin for that has been a lot of the back-book actions that have come out of that mature savings book. Can you talk a little bit about how you see the dividend security going forward, given that you've now got a pure investment management business with obviously more market risk, arguably, and more sort of performance risk?

And then just finally on SWIP, given that one element of the sort of ultimate resolution that was the competitor aspect of the two organisations, the transaction with Phoenix, does that make it more or less likely that you might end up retaining some of those assets in some form, albeit maybe at a lower margin? Thank you.

Keith Skeoch: Martin, do you want to deal with the SWIP issue?

Martin Gilbert: Yeah. I mean, I think that's a question for Scottish Widows, rather than us. I mean we – yeah, we were obviously disappointed that they felt we were competing with the Lloyds Banking Group. We've got a good relationship with them and we've got good performance, so this obviously doesn't make the situation any worse. But let's be clear, the reason we did this was not because of the Scottish Widows situation. But, I mean, look, we're in the re-tender process; we're deeply embedded in each other; we've got, as I say, very good performance numbers. So yeah, no, we're in dialogue with them going forward and we've got a year to see whether they select us or select someone else to manage those assets going forward.

Keith Skeoch: I think on the use of cash obviously this transaction has yet to complete, so the cash has yet to come in. I think there will continue to be a balance of investing in those strategic priorities and making sure that we drive growth and generate the top-line growth which is equally important to getting that cost/income ratio down. We want to make sure that we are financially strong. And in time, when we've made an assessment of that and the transaction completes, we will come back and talk about the balance between investing the cash, financial strength and what we deliver to shareholders. I think we've got a very strong track record of delivering to shareholders.

On the dividend growth, clearly you can see that we're moving from a position where we had a regulatory surplus which was largely VIF and intangible to having a very significant surplus under CRD IV which is cash. So there's a lot of support there for our progressive dividend policy. And as we grow the business, we've always said that we will map that progressive dividend policy with the way in which we generate medium-term cash flows, so there's – we will come back.

Question 3: Oliver Steel (Deutsche Bank):

Thank, Oliver Steel, Deutsche Bank. I suppose it's almost following up on the question about proceeds. Net of the Scottish Widows assets under management, you're right on the cusp of that $750 billion asset management sort of threshold that you talked about. So if you're looking to sort of increase your funds comprehensively above that sort of level, how far are you prepared to go in terms of acquisitions?

I think that's the only question I've got.

Keith Skeoch: Martin?

Martin Gilbert: I think the issue is we've got quite a lot on our plate at the moment, we've still got the integration to complete on the merger of the asset management companies. We've now got this big strategic move to do. I think - you know, I really think it would be very unlikely that we would do anything major over the short to medium term. If we could see some attractive in-fill acquisitions, clearly we would do that. But we're speaking about £100 million or so, those sort of transactions, so I think unlikely to do anything very major.

Question 4: Andy Sinclair (Bank of America Merrill Lynch):

Thanks, it's Andy Sinclair from B of A Merrill Lynch, three questions from me. Firstly, workplace pensions, you've got a leading platform in the UK, strong net inflows. I think Lloyds this week said that they think that market can grow at 11% compound over the coming years. I just wondered why it makes sense to sell that part of the business as well as the more mature legacy parts.

Secondly, on the Indian JV stakes, it seems there's possibly less – even less synergies really between those now and the rest of the business. Is it fair to say that's not really a key part of the strategy, to retain those going forward?

And thirdly, just on the SWIP mandate again, just wondered if you could tell us, really, what advice was taken prior to the merger about that mandate and the competition clause and what the expectations were there? Thanks.

Keith Skeoch: I think if, Barry, you can do Workplace, I'll do the Indian JVs and then we'll come back to Martin for SWIP.

Barry O'Dwyer: Yeah, okay. It made sense to sell Workplace as part of SLAL, largely because there are operational efficiencies in running SLAL as a single insurance company. However, what maybe didn't come out fully in the presentation is that we are going to continue to be active in the workplace pensions market, we're going to still market Standard Life to clients at pitches. It's just that the administrator of our workplace pension schemes is obviously going to be Phoenix, going forward. So, now Phoenix will administer our workplace pensions with our staff and systems, they'll move across to them post-completion. But it's important to note that we're not pulling out of the workplace market, we're not closing to new business. We are still going to be just as active in the workplace market and we're still very positive about the prospects for the workplace market going forward.

Keith Skeoch: On the Indian JV stakes, I think actually what they bring us is access and exposure to the benefits of two businesses which are there collecting retail assets; one in a mutual fund wrapper; the other in a life insurance wrapper in what is, I think, one of the fastest-growing, fastest-developing consumer economies in the world. So for me it makes perfect strategic sense to maintain those exposures.

Martin, SWIP?

Martin Gilbert: Yeah, I mean, it's a difficult question to answer because there's a certain amount I can say and a certain amount, obviously, I can't say in a public forum such as this. But let's be clear, we were fully aware of the implications of the competition clause when we did the merger. And in fact there was a value reduction on the possibility of the contract leaving. So, we were very, very well aware of the issue.

And I think from – and let's be clear, we took – and this was our decision – we took the decision that this merger of Standard Life with Phoenix and the strategic stake going forward was a better deal for shareholders, a better deal for our people and a better deal for clients. So this was entirely our decision, to go down this route, knowing the repercussions that there were on the Widows contract. So I just want to be very clear on that. This was entirely within our – this was entirely our choice to go down this route, with the prospect, as we know, of perhaps losing the Widows mandate.

<u>Question 5: Daniel Garrod (Barclays):</u>

Good morning, Daniel Garrod at Barclays here, three quick ones from me. Firstly, the £250 million – the increment in the synergies from £200 million, can you provide any more colour around? So, the areas that you've identified that additional £50 million and the timetable for realisations. I think previously you spoke to three-quarters inside two years. Is that – does that stand at the larger total or is it more delayed?

Second question: you mentioned around a timing mismatch – I think it was Bill – for GARS on the multi-asset side. Obviously GARS performance improved in 2017 around – versus 2016, so sort of thoughts there around how long that timing mismatch might last.

And then, lastly, Martin, you mentioned future capital support for Phoenix in your comments. Is that over and above the 19.9% stake that you – I think there was a reference to expectation of Phoenix continuing to consolidate books. Can you provide any more colour what you meant by that? Thank you.

Martin Gilbert: Yeah, well, I'll start on that one last there. No, it's not over and above the 19.99% stake or else we might have to bid for them. So going back to Gordon's point, we could end up where you suggested ten years ago, or whenever it was. But we're expecting them to have cash calls, or capital calls, to further grow the business which we're very keen to support. So I think what I was trying to say was we will maintain our 19.99% stake.

Shall I do the first bit?

Keith Skeoch: Yeah.

Martin Gilbert: The £250 million was already there, as I said earlier. It was our internal target and in fact our internal target is slightly above that but that's what we know we can achieve, so we're on track, as I say. We're slightly ahead of track but it's purely the same areas that we were looking at before: property, systems, all of these items that we had on our original list. I can't remember what your second question was. Everyone seems to have three questions, actually.

Keith Skeoch: It was on GARS. So, just on that £200–250 million, to be clear, the £200 million was what was identified from the reporting accounting, who looks at your gross target and haircuts it, risk-adjusts it. We've made such good progress so far on what we've delivered that we think that we can get closer to, as Martin says, the gross target than the risk-adjusted target from the reporting accountant.

There was a middle question on the mismatch of timing on GARS. Yeah, GARS had a much better second half of last year. It's seeing its performance improve. I think there two things to really take into account. It will take time, I think, for the GARS inflows to improve. Actually I think the whole multi-asset market is a bit tougher than it was. So I think what we will see, as we roll through 2018, is some of the outflows that were associated with the underperformance in 2016 starting to ameliorate, which will leave us in a better place.

<u>Question 6: Haley Tam (Citigroup):</u>

Hi, it's Haley Tam from Citi. If I break with tradition and ask two questions, then please? So first of all, I think with the Phoenix transaction today, you say you expect the existing investment management agreements with SLAL and Phoenix to continue on broadly the same terms, with the rolling three-year term as well. Could you give us perhaps some more colour on what those terms actually are?

And then secondly, just in terms of the asset manager of choice for Phoenix, with £110.5 billion you'll manage now for the disposed business, plus, I think, the nearly £50 billion for Phoenix already, can you give us some idea of the scale of that ambition for you and the timing we should think about it? Thank you.

Keith Skeoch: On the Standard Life funds, we basically get paid close to nine basis points on the long-term with-profits fund, and around about 14 basis points on the unit-linked which were part of the DC platforms. So actually we would imagine – but this is all, of course, subject to contractual negotiation – that broad thrust of those conditions remains in place.

In terms of the longer-term ambition, we would look to use our ability to have the right of first refusal, be the asset manager of choice to see more of the assets that Phoenix brings on in the future come to Aberdeen Standard Investments. And indeed look at where we have very strong capabilities and we can look at offering those for the benefit of clients and customers for Phoenix. So I think we're pretty silent on what the number is at the moment.

<u>Question 7: Greig Paterson (KBW):</u>

Good morning, Greig Paterson, KBW. Just in terms of GARS and your emerging market mandates, my understanding is they're still not meeting their benchmarks. And as you pointed out, we expect – well, at least I expect – you sort of reiterated that there'd be further outflows. But I was thinking in terms of the retail margin, I see that of the funds that you retain 31 basis points, I was wondering if that's got some downside risk as the headache from underperformance of GARS on the emerging market funds continue.

And then two other just sort of technical questions, one is if you could just tell us what the deferred – if there are any deferred tax assets going with the disposed operation, and how are you going to deal with the pension fund surplus? Because I assume there's employees in both camps, so I was wondering where the liability and the risk falls for that going forward.

Keith Skeoch: Bill, do you want to do the deferred tax assets?

Bill Rattray: I don't believe there's any material deferred tax implication on what's going.

Keith Skeoch: The pension fund stays with us. It's in considerable surplus and we will look at dealing with that pension fund further down the road.

As far as GARS is concerned, I kind of need to remind people that GARS actually has two forms of benchmark. So the way in which it sells to client is, for sure, it has its LIBOR-plus target but actually one of the things it also looks to deliver is equity-like returns with a third of the volatility of the equity market. And that's quite an important component when you're looking on people's balance sheets.

And I think emerging markets had a better second half of the year but a pretty tough summer. But I think, Martin, flows are actually –

Martin Gilbert: Yeah, flows are definitely improving. And obviously the absolute performance has helped considerably in emerging markets last year.

Greig Paterson: Just margin, the margin, can we get a – you know, as – assuming things improve and there's some kind of tail, does that 31 basis points for the assets you retain – has that got some sort of factoring in some kind of reduction to [inaudible] to 28 in there?

Martin Gilbert: I don't see that, no.

Keith Skeoch: I don't see it. I don't see that at all, they're good asset management contracts. Andrew?

<u>Question 8: Andrew Crean (Autonomous):</u>

Andrew: Yeah, a couple of questions. Firstly on your – on Phoenix, are you going to consolidate 19.99% of their profits, or just the dividend? And secondly, within the £381 million of profits that you're selling, you said that there were a few sort of one-offs within the spread business. Were there any sort of one-offs, experience variances or operational assumption changes within the other businesses which you're selling which may not be on the same multiple?

Keith Skeoch: Bill and Barry, I think?

Bill Rattray: No similar one-offs on the other parts of the business that we're selling.

Keith Skeoch: Barry?

Barry O'Dwyer: On the consolidation?

Bill Rattray: Sorry, yeah.

Keith Skeoch: Sorry, that's Bill, yeah.

Bill Rattray: Yeah. On the consolidation, yes, we'd expect to account as an associate, so we'll record the share of profits as opposed to just the dividend.

Question 9: Arnaud Giblat (Exane):

Hi, it's Arnaud Giblat from Exane, a couple of quick questions please. Firstly, on the piece you are selling, or retaining, SLI made up, I think, 1.9, you say you're retaining 2.1 pro forma. Can you just maybe show us the P&L and explain a bit better which pieces of the – how much of the UK retail platform you're retaining? Because I'm struggling with the sums.

And my second question is on regulatory capital requirements. Will you be transitioning at some point to an FCA regulatory capital requirement?

Keith Skeoch: As a result of this transaction we will and we'll become CRD IV rather than Solvency II. So we will take VIF and intangible surplus and create a tangible cash surplus.

Martin Gilbert: And that's come back to on the first question, I think.

Keith Skeoch: Yes.

Question 10: Ravi Tanna (Goldman Sachs):

Thank you, Ravi Tanna from Goldman Sachs. Just two questions please. The first one is on the ambitions around debt leverage for the group. I know you've got some at the holding company and also some within SLAL. And I was just wondering, given the cash that's now sitting on the balance sheet, what the intentions are around leverage, and in particular the amount that's in the subsidiary that you're disposing of.

And then the second one was just on the profit profile of the platform businesses that you're retaining. Obviously there's been a lot of investment into those in the last few years, in particular into Elevate and other such areas. To what extent do you see that investment phase as being completed and how should we think about the profit profile going forward, given its been growing so quickly to date? Thank you.

Keith Skeoch: I think on the platforms there's an awful lot of operational leverage and it's really important to note that those platforms have shifted into profitability. But we've invested quite a lot of money over the last five or six years. And so as we continue to take strong flows on those platforms, the operational leverage, I would expect that profitability to improve. The returns are potentially quite significant. Bill, on leverage?

Bill Rattray: Leverage. I mean, clearly moving from a Solvency II regime to potentially a CRD IV regime will change the dynamics. I mean, that’s something in the – just over the course of the next few weeks and months we’ll take a firmer view on. And it links back to the question in terms of use of cash and use of proceeds.

Question 11: Marcus Barnard (Numis):

Marcus Barnard (Numis): Marcus Barnard, Numis. Can you tell us what the provisions for Phoenix breaking the asset management contract are? I think it's a ten-year contract and obviously you own 20% of them, but what's the sort of penalty that Phoenix will pay if they broke the asset management contract?

Keith Skeoch: Yeah, there is a – it'll be in the circular. There will be a purchase price adjuster, but to be clear, I mean, you have to differentiate between, these days, which is governed by regulation, losing the assets for gross underperformance after a cure period when you get a chance to put things right. There is quite a detailed purchase price adjuster on the other assets, and it'll be in the circular and it's in the detail. And Gordon Neilly, who's in the front row would be delighted to go through it with you in some detail.

Question 12: Charles Bendit (Berenberg):

Hello. Charles Bendit, from Berenberg. I just wanted to follow up on an earlier question about the mature Standard Life business that's going to Phoenix and that you hope to get back to ASI. Has the revenue yield on the with-profits fund and unit-linked policies not been locked up as part of the transaction terms?

And then secondly, I was just wondering, with the Scottish Widows mandate, could you tell us the cost associated with that mandate so we get an idea of the earnings impact, please?

Keith Skeoch: I think as far as the Standard Life mandate is concerned we'll be pretty much in exactly the same place. Bill, on the –

Martin Gilbert: Well, I – sorry, I was going to say, look, it's not something we're prepared to reveal, I think, today. But there are costs associated with managing the contract.

Question 12: Abilash PT (HSBC):

Hi, it's Abilash PT from HSBC. I've got two questions, please. First, the UK pension and savings business always been run together in terms of SLAL and SLS. Do you expect any additional costs to actually operationally separate those businesses before – the platform business from the life insurance business before selling it to Phoenix? That's the first one.

The second one, that 60% cost-to-income ratio ambition you've basically put forward for the rest of the group in the medium term, what is the growth assumption you have put in there, if you don't mind sharing that? Or the other one is how, does that only include the £250 million of cost savings from the Standard Life Aberdeen merger at this point? If you can be any clearer on that. Thanks.

Keith Skeoch: Right, so we certainly are not making any forecast about our medium term growth, and I would stress that 60% is an ambition. It will include, clearly, the synergy targets and our very careful husbandry financial discipline and control of costs going forward.

Sorry, and your first question was...? Oh, separation costs. No, there will be, clearly, a separation cost associated with the consolidation and we'll come back on that in due course.

Question 13: Gordon Aitken (RBC):

Thanks, Gordon Aitken from RBC. Just a follow-up question based on something you said. So you've talked about today's deal being very much your choice. You knew, it seems, that if you didn't do the deal with Lloyds on the insurance side, there was a good chance you would lose the SWIP mandate. So you basically got two routes you could have gone down. The first route, sell the insurance business to Lloyds, keep the SWIP mandate, or the second route would be, tie it with Phoenix, potentially – well, high chance of losing the SWIP mandate, lose, let's say, 7% of your profit. You're selling SLAL – I checked my numbers – 84% of owned funds. So why is that second route preferable? Why is SLA not worth 100% of owned funds? And is that a case that maybe you think that's worth 100% of owned funds, but – on – well, I think – inside an insurance company.

Martin Gilbert: It was 90% of own funds, was the price.

Gordon Aitken: Yeah. But what was fascinating to me, inside insurance companies you don't think about discounts to embedded value to your own funds. You think that that money can all come back – so it can be 100% or more. So is it a case that you just felt that share price was never going to factor in? Maybe you thought it's only ever going to be 50% of own funds.

Keith Skeoch: So as Martin said, this was our choice. This is a better deal for shareholders, because it's bang in line with our long-term strategy of creating a capital-light, well-diversified, world-class investment company. It shifts us out of having a Solvency II balance sheet. It turns intangible capital into cash that we can use to invest in the future. Obviously we have maintained our financial strength and allows us to support shareholders. It is a better deal, we believe, over the long-term for our customers, given the expertise of Phoenix and their improving track record in delivering for policyholders with relatively high service levels.

And as Martin has said, we believe this is also a better deal for our people, because in a sense, Phoenix, that's looking to expand the closed book of business, will provide growth opportunities. And our ability to do all of that and retain the faster-growing retail platforms and maintain our IFA adviser franchise, which is a long-term strength of Standard Life

Investments and a big source of value opportunity in the future, that's the reason we did this deal. It's our choice. It's in line with our strategy.

Martin Gilbert: I totally agree. I mean, I think– as Keith said, this was our choice. We had a decision to make. We could have, as you said, done another transaction but we chose this. This was the better deal for shareholders.

Question 14: Marcus Barnard (Numis):

Marcus Barnard: Yeah, Marcus Barnard from Numis again. Regarding the annuity book, presumably the £175 million provision for sales has gone with that annuity book. Are there any further warranties or contingencies that you're passing to Phoenix as part of that?

Martin Gilbert: Normal warranties and indemnities on a deal, but I think, Barry, we feel that's fully-provisioned?

Barry O'Dwyer: Yeah, and there's an increase in the provision in this year's report and accounts for the annuity sales.

Keith Skeoch: Okay, we can probably take one more question.

Question 15: Greig Paterson (KBW):

Greig Paterson: One is you didn't answer the question how much debt goes with the disposal in that subsidiary.

Second question, just in terms of looking at the price you got, that £50 million one-off non-cash expenses, how much was associated with the business at close. And the third is, just can you enlighten us? You mentioned this year there was a £50 million one-off boost to the expenses line. £30 million was associated with the Life company and £20 million was to do with non-cash items. I was wondering how much is associated with the disposed business.

And the third thing is the transaction costs that you have incurred for this deal. I wonder if you could tell us what those are.

Keith Skeoch: So the transaction costs will be revealed in the circular. As far as the debt is concerned, we've got some stuff to work to, because obviously we have some debt, which is RT1 and Solvency II compliant, which doesn't work in a Solvency II world. So we'll have to think about the restructuring of that debt so that we have appropriate debt for a CRD IV environment. So there's a little bit of work to be done on that restructuring. And

Greig Paterson: [Inaudible]

Keith Skeoch: Zero.

Barry O'Dwyer: And on the life side, £31 million on the life side. All is in respect of the transferring business.

Greig Paterson [Inaudible].

Barry O'Dwyer: Yeah. Yes, when you're reversing it out, yeah.

Keith Skeoch: Okay, thank you very much. Thank you for coming along. As I say, and Martin said, this is a momentous day for Standard Life. We are very much shifting from being a capital-heavy life insurance company to a capital-light, fee-based, world-class investment company. The transaction is bang in line with our strategy, and our focus as a team of executives is on driving the business forward, taking advantage of the opportunities for the benefits of shareholders, customers and clients and our people. Thank you very much.

[END OF TRANSCRIPT]