Standard Life

Investor Relations Newsletter
Autumn 2015

"Hello and welcome to the Autumn 2015 edition of our quarterly Investor Relations Newsletter. This quarter we take a closer look at our liability aware investment capabilities, as well as our two Indian joint ventures. We also highlight Standard Life's response to the UK Government's consultation on pensions tax relief and the success of our Wrap platform at the Aberdeen Platform Awards 2015.

"During the last quarter we released our Half year 2015 results and also agreed terms to increase our stake in HDFC Life from 26% to 35% subject to regulatory approval.

"We have also been busy during the recent conference season, attending conferences held by KBW, Sandford C. Bernstein and Bank of America Merrill Lynch. It was great to meet so many of you at these events and to discuss our latest presentation for the first time.

"If you would like to find out more about the topics in this newsletter, have any feedback or are interested in meeting us at any of our upcoming events, please get in touch with a member of the team."

Click here to view slides from the Bank of America Merrill Lynch conference and read Keith Skeoch's speech

This quarter's features...

• Liability aware investing
Why we are strongly positioned for the rapidly developing liability aware market and the benefits of multi-asset investing under Solvency II.

• Our Indian joint ventures
India is set for strong economic growth over the next five years, as well as an expansion in its saving and investments markets. Our two Indian joint ventures are well positioned and have seen impressive growth in recent years.

• Pensions tax relief consultation response
Our response to the UK Government's consultation on pensions tax relief and why we believe a flat-rate incentive led pensions regime will help close the UK savings gap.

• Award-winning Wrap wins again
Our Wrap platform recently won four awards at the Aberdeen Platform Awards 2015 and continues to lead the advised platform market.

• Latest press releases
The Group's press releases from the last quarter, including a snapshot of our pension customers' behaviour since 6 April.

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Upcoming events

11 November 2015
UBS European Conference

17 November 2015
Barclays Global Income Corporate Day
(Luke Savage)

19 November 2015
J.P. Morgan Cazenove Best of British Conference
(Luke Savage)

22 to 24 February 2016
Full year results London investor roadshow

16 March 2016
Morgan Stanley European Financials Conference

Financial calendar

28 October 2015
2015 Q3 AUA and flows update

19 February 2016
Full year results 2015

27 April 2016
2016 Q1 AUA and flows update

9 August 2016
Half year results 2016

Liability aware investing and Solvency II

Bruce Porteous
Investment Director
Insurance Solutions Team

- **Strongly positioned in rapidly developing liability aware market**
- **Track record of managing insurance assets both for Standard Life Group and for third party clients**
- **Our multi-asset solutions help insurers make the most efficient use of their capital**

What is 'liability aware investing'?

Liability aware investing is a term we use to describe the management of assets to meet a client's unique capital, solvency and reporting requirements while generating returns which allow the client to meet their specific obligations or liabilities.

Our liability aware philosophy goes beyond Liability Driven Investing by using, for example, an underlying absolute return investment engine which can maximise returns for a given amount of capital while helping our clients meet increasingly complex reporting requirements.

In this article we will focus on how our liability aware solutions can help insurance companies generate higher risk-adjusted returns.

The search for yield is driving demand for outsourcing of insurance assets

The challenging economic environment, volatile investment markets and the prolonged period of low interest rates have increased the number of insurers seeking to broaden their investment strategies. They are looking beyond traditional asset classes towards solutions which generate higher risk-adjusted returns which meet their long-term liabilities. Insurers are therefore increasingly outsourcing the management of such assets to managers with the required expertise. It is estimated that around US$1 trillion[1] of global insurance assets will be outsourced in the near future.

Solvency II driving further demand for liability aware solutions

Previous solvency rules were largely formulaic and often ignored the true economic risk associated with holding a portfolio of assets. The look-through principle of Solvency II (which requires look-through to each individual security within a fund and its specific risk characteristics) means that insurers can now benefit from the diversification qualities between individual investments held by a fund. Further diversification benefits can be recognised between the fund and other investments that an insurer may hold giving rise to additional opportunities to optimise returns per unit of capital.

Therefore, under Solvency II and other economic-based regulatory regimes, insurers will need to reconsider their investment choices to ensure that asset allocations take full advantage of diversification benefit opportunities, therefore making the most efficient use of available capital.

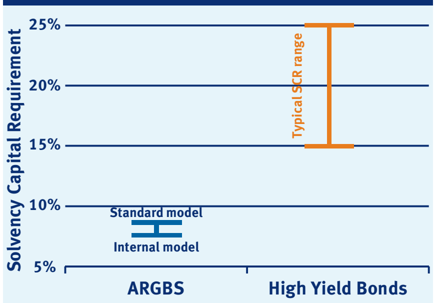
Standard Life Investments is very well placed to deliver liability aware solutions

Our expertise in managing insurance assets (following the acquisition of Ignis in 2014 Standard Life Investments now manages in excess of £130bn of assets for insurance companies across UK, Europe, US and Asia) combined with our leading suite of multi-asset absolute return investment solutions and Solvency 2 reporting capabilities, means that Standard Life Investments is very well positioned to capitalise on this opportunity.

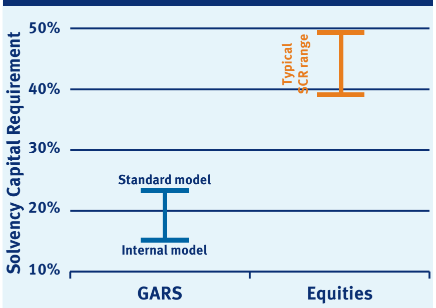
Improving insurers' capital efficiency through our leading investment solutions

The potential benefits for insurers can be seen by examining the impact on an insurer's Solvency Capital Requirement (SCR) of introducing absolute return vehicles under the Solvency II regime. To illustrate this, we use the examples of the Absolute Return Global Bond Strategies (ARGBS) and Global Absolute Return Strategies (GARS) funds, which target cash + 300bps and cash + 500bps respectively.

ARGBS has lower SCR versus High Yield Bonds



GARS has lower SCR versus Equities

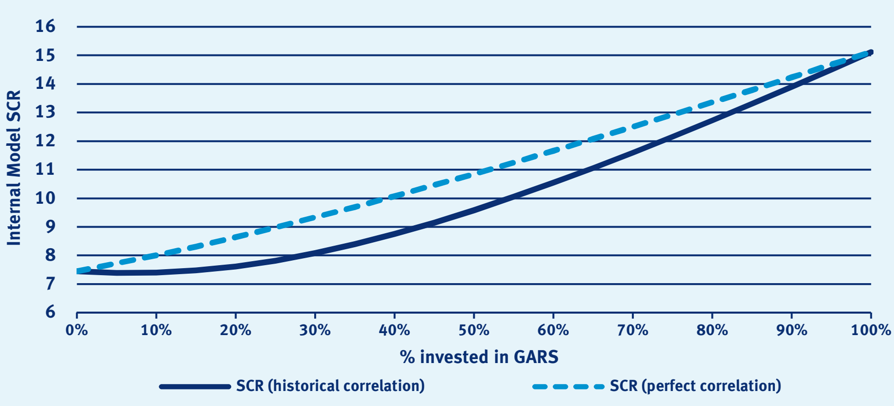


The above charts compare the SCR under an internal formula (estimated for a typical insurance company), the standard formula and comparable equity or fixed income funds.

1. Cerulli Associates; March 2014.

There are also diversification benefits through using a mix of absolute return funds. Our absolute return funds have been constructed to generate low levels of return correlation between the funds. The historical correlation between GARS and ARGBS returns over the last five years has been +0.37% and where the funds are held in combination, the SCR recognises the diversification benefit. The chart shows how the Internal Model SCR behaves for different mixes of ARGBS and GARS, assuming perfect correlation between the funds and also the historical correlation of +0.37%.

Combination of GARS and ARGBS creates further diversification benefits



Case study: Our insurance solutions in practice – capital efficient yield enhancement

Here, we consider the case of a general insurer invested in a short-dated investment-grade UK corporate bond portfolio. At mid-2015 credit spread levels, this portfolio might be expected to offer a gross yield of around 2%. It would generate a Standard Formula Market Risk SCR of around 5%.

In this low-yield environment, the insurer is particularly keen to enhance the expected return of the asset portfolio.

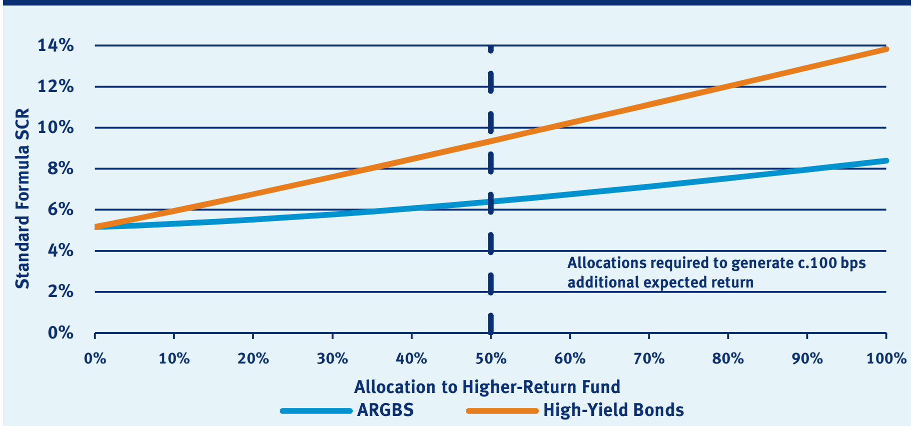
It therefore considers two possible approaches:

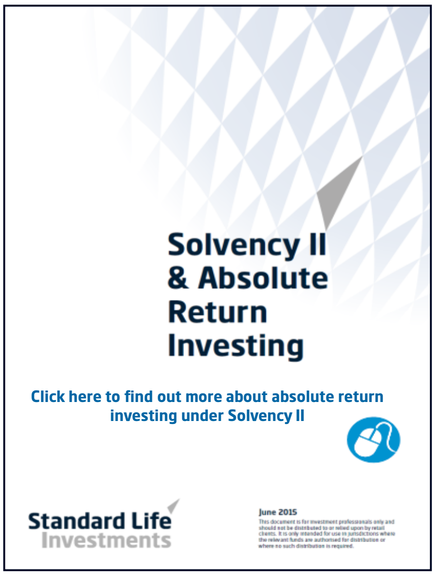
- Move some of the portfolio up the credit risk spectrum by switching into some high yield bonds, or
- Switch some of the portfolio into the ARGBS fund.

In both cases, the expected return on the portfolio could be enhanced by 100 bps by switching around half of the fund into the higher return strategy.

The chart below shows how the Standard Formula SCR behaves as assets are switched from the investment grade corporate bond portfolio into each of the high-yield bonds and the ARGBS fund. The chart demonstrates that switching half of the portfolio into ARGBS could increase the expected portfolio return by 100 bps with only a moderate increase in Standard Formula SCR (it would increase from 5.2% to 6.4%). A comparable switch into high-yield credit, on the other hand, would result in the Standard Formula SCR increasing to over 9%.

ARGBS increases yield at a lower SCR than high yield bonds





Rising success of our Indian companies

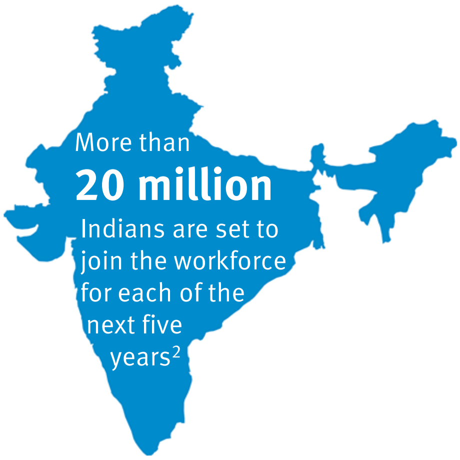
India is a quickly growing market with huge potential

India is a market with huge potential. With GDP of over \$2 trillion, India is already the world's 9th largest economy and one of the fastest growing with growth forecast at 7.6% per annum from 2015 to 2020[1]. It will also benefit from its young population, with more than 100 million Indians set to join the workforce over the next decade[2].

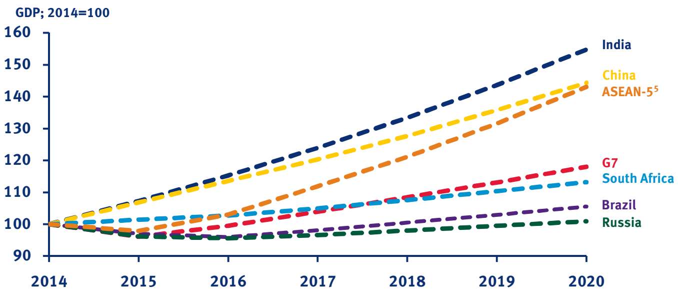
Economic growth and the expanding working-age population will increase disposable income and the size of the middle class, which will support an expansion in saving and investments markets.

India's life insurance penetration remains low at 3.0%[3] despite a high savings rate over the last decade of between 20% and 25%[4]. Insurance density is also lower than global counterparts[3] as a large proportion of the population is either uninsured or underinsured.

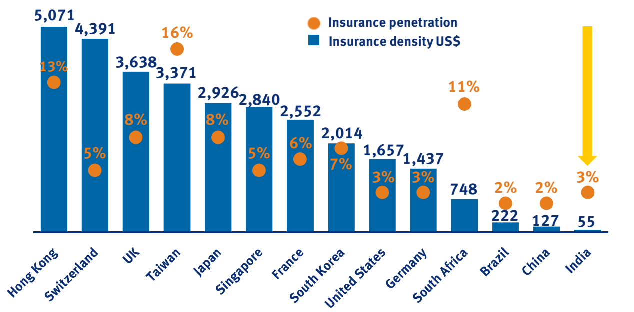
This is expected to improve as increasing life expectancy, a shift towards a nuclear family structure and increased spending on healthcare drive demand for insurance products.



India is one of the world's fastest growing economies[1]...

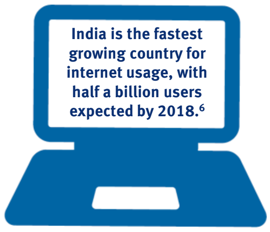


...but is underinsured compared to global counterparts[3]



In addition, the government is supporting efforts to increase ease of access to financial products across the country through technological advancements. There is a drive to increase investment in mutual funds from outside the "Big 15" cities, which has already seen an increase in investments in mutual funds from rural areas.

Despite India's strong savings culture, capital markets currently have a low share of household savings with Indian investors preferring physical assets such as gold and real estate[4]. Improving capital markets sentiment, low inflation projections and an improving economy should see an increased allocation of savings into financial assets.



About our partner - HDFC

Our JV partner	HDFC, the Housing Development Finance Corporation, is a **major financial conglomerate** in India with a market cap of around £20bn. It was formed in 1977 and has grown to become one of the world's 10 largest consumer financial services firms[7].
Our joint ventures	We have two joint ventures with HDFC. **HDFC Life** is our life insurance joint venture and **HDFC AMC** is our asset management joint venture. Key facts about these two companies can be found on the next page.
Key distribution partner	**HDFC Bank** is one of India's largest private sector banks and is a **key distribution partner for HDFC Life**. The bank's network of over 4,000 branches helps HDFC Life access a wide customer base. HDFC is the most valued brand in India with a brand value of US\$12.6bn[8].
Other HDFC companies	HDFC also has a presence in general insurance, venture capital, education finance, housing finance and real estate.

1. Source: International Monetary Fund; October 2015. 2. Source: International Monetary Fund; March 2015. 3. Source: Swiss Re; 2015 4. Source: Nomura Research; August 2015. 5. Comprises Indonesia, Malaysia, Philippines, Thailand and Vietnam. 6. Source: The Internet and Mobile Association of India; January 2015. 7. Source: Forbes Magazine; May 2014 . 8. Source: WPP BrandZ Top 50 Most Valuable Indian Brands study; August 2014.

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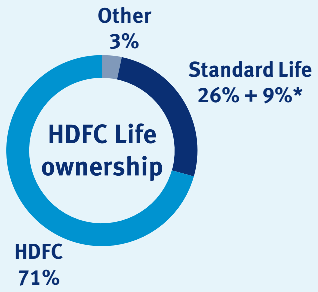
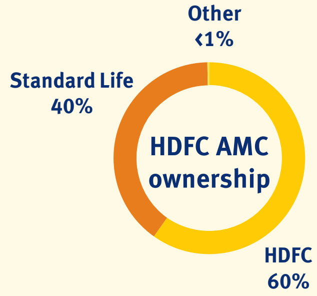


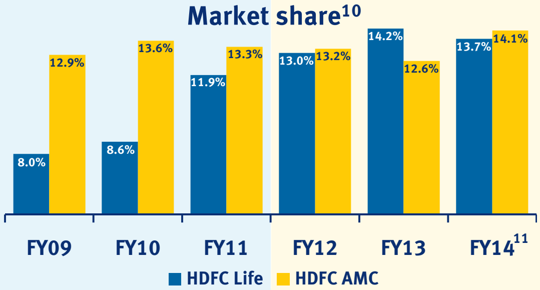
*Agreement with HDFC to increase our stake to 35% subject to regulatory approval[9]

HDFC Life	HDFC AMC
Established 2000	Established 1999
A leading private life insurer in India – ranked 2nd for sales	Largest mutual funds company in India
Contribution to Standard Life operating profit: (H1 2015: £12m, FY 2014: £16m)	Contribution to Standard Life operating profit: (H1 2015: £15m, FY 2014: £21m)



Leading market positions

Market share[10]

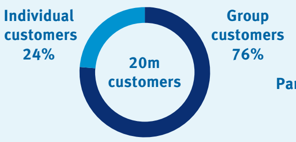


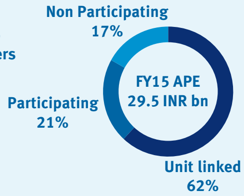
Started paying dividends in **2013** with no capital injection required since **2011**

Paying dividends since **2002** with no capital injection required since **2003**

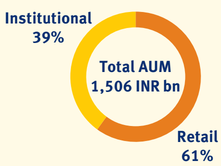
HDFC Life		HDFC AMC	
Wide product range	**31** products across protection, savings, pensions, health and annuities	**Wide range of capabilities**	Manages **55 funds** comprising fixed income, equity, gold exchange traded funds and fund of funds
Vast distribution network	**400** branches and **8,300** partner branches. Bancassurance arrangements with HDFC Bank, Saraswat Bank and RBL Bank are our main distribution channels	**Multiple distribution channels**	Distributes through banks, national brokerages, IFAs as well as D2C. Serviced by **150** HDFC AMC branches and **250** partner branches
Clear leader in the digital market	Over **50%** of online sales	**Clear leader in equities**	**18.25%** of equity AUM in Indian market
20 million accounts		**5 million accounts**	

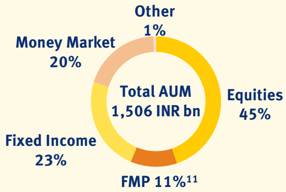
Broad range of customer and product types





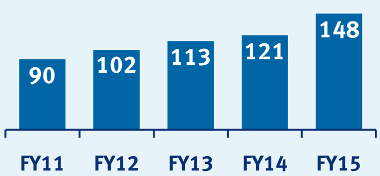
Diverse mix of clients and capabilities





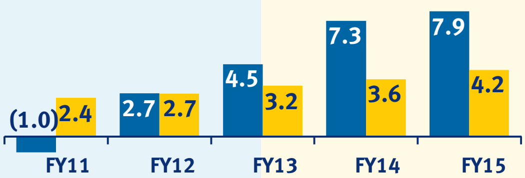
Strong growth in premiums

Total premiums INR bn



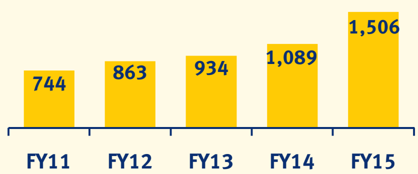
Strong growth in profits

Profit after tax INR bn



Strong growth in AUM

AUM INR bn



HDFC Life ■ HDFC AMC

9. Approval required from: Competition Commission of India, Foreign Investment Promotions Board and Insurance Regulatory and Development Authority of India. 10. HDFC Life market share measured as share of private life insurance premiums. HDFC AMC market share measured as share of AUM. 11. Financial year for HDFC Life and HDFC AMC finishes on 31 March. 12. Fixed Maturity Plans.

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Standard Life calls for flat-rate incentive for pensions

On 30 September we submitted our response to the UK Government's consultation on pensions tax relief. In our response, we called for a flat-rate, incentive-led pensions regime rather than the current system of tax relief.

'You pay £3 and the Government pays £1'

Our proposal is for a new, flat-rate incentive on employee contributions. This model would therefore be 'Incentivised-Exempt-Taxed' (IET) as opposed to the suggested TEE ISA-style regime or current EET regime. We have proposed a flat-rate incentive of 33.33% which can be marketed to savers as 'you pay £3 and the Government pays £1'. This is equivalent to tax relief at 25% under the current regime.

Increasing savings engagement

Our proposed flat-rate incentive would increase retirement savings towards the level required to address the UK savings gap and ensure consumers are adequately prepared for retirement.

It would increase engagement with savings as:

- The simple and clear single rate incentive would increase understanding of pensions
- The single rate could be marketed in a similar manner to an employer contribution, creating a powerful matching incentive to save
- It would minimise disruption to the existing system and support the continued success of auto enrolment
- Administration would be simple as it could use existing 'relief at source' arrangements as currently used in workplace pensions.

We believe a 33.33% flat-rate incentive is both fair and sustainable. Fair, as the incentive would be targeted at those for who saving is most challenging, and sustainable as it would be affordable for the Government.

Clear advantages over TEE

In addition, an IET regime has clear advantages over an ISA-style TEE regime:

- It provides a clear incentive to save for the longer-term until retirement, as opposed to for the short term
- Tax relief would not be dependent on the tax policy of future governments
- Taxation at point of withdrawal creates an incentive to spread income in retirement over a longer period – reducing the risk of pensioners falling back to rely on the state.
- It could be implemented more quickly.

Award-winning Wrap wins again!

Standard Life Wrap has again achieved success at the prestigious Aberdeen Platform Awards. This time we picked up four awards.

We were voted **Platform of the Year** and also **Best Large Platform Provider** (AUA over £12.5bn), both for the second year running.

We also picked up two new awards: **Best Use of Platform Technology** alongside our partners FNZ, and the **Best Platform for Adviser Service**.

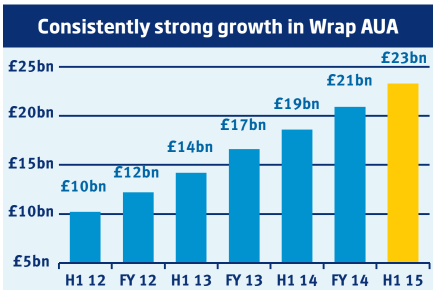
The awards are not only judged by industry experts, but also by the adviser community, demonstrating Wrap's success in delivering for our clients.

> ***"the winner continues to deliver their commitment to high quality, have maintained their gross and net sales trajectory, understand the shift from accumulation to decumulation, enabling their advisers to focus on the end customer"***

The Aberdeen UK PLATFORM AWARDS 2015 Aberdeen

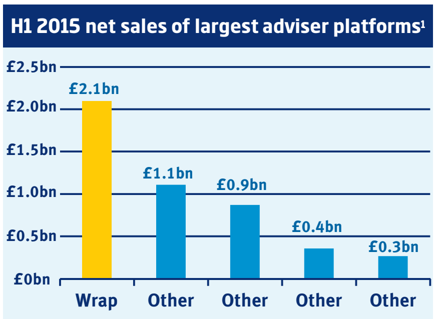
Strong growth in Wrap

These strong relationships with advisers have continued to fuel Wrap's strong growth. As at 30 June 2015 assets on Wrap stood at £23.3bn up 25% year on year, with a CAGR of 32% over the last three years.



Record net sales in H1 2015

Wrap has consistently registered the highest net sales of any adviser platform over the last two and a half years. This success continued in H1 2015, with Wrap registering record net inflows of £2.1bn, a 17% increase on the prior year.



Click here to find out more about our success at the Aberdeen Platform Awards 2015

1. *Source: Standard Life and Fundscape Q2 2015.*

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Press release

Group

Women want to make a difference with their money

15 October 2015

New research from Standard Life shows that women want to make a difference when they invest. Women investors are 10% more likely than men to want to invest in companies that achieve positive social outcomes (41% vs 31% respectively) and 9% more likely than men to want to invest in companies that minimise environmental damage.

Read more

Press release

Group

Standard Life is first in private sector to join new Living Wage Friendly Funder Scheme

24 August 2015

Standard Life is leading the way by becoming the first private sector company to join the Living Wage Foundation's new scheme for charity funders. The scheme recognises organisations and companies that commit to supporting charities by funding posts at the Living Wage or above

Read more

Press release

Group

Standard Life seeks regulatory approval to increase stake in HDFC Life

14 August 2015

Standard Life plc announces that terms have been agreed with HDFC to seek regulatory approval to take an increased stake in HDFC Standard Life Insurance Company Limited for a consideration of approximately £169m. This would take the total stake from 26% to 35%. The conclusion of the transaction is subject to regulatory approvals.

Read more

Press release

Group

Half year results 2015

04 August 2015

“Standard Life has performed well during the first half of 2015 driven by a focus on providing value for our customers, clients and shareholders. We have increased the assets that we administer on behalf of our customers to £302bn helped by strong demand for our propositions.”

Read more

Press release

Standard Life Investments

Standard Life Investments highlights the impact of millennials on value-based investing

20 October 2015

Global investment manager, Standard Life Investments has issued a White Paper examining the rise of the millennials and their impact on values-based investing. It explores millennials’ potential impact on traditional financial management, as well as the many opportunities they create for the industry.

Read more

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Press release

Standard Life Investments

Standard Life Investments appoints Multi-Asset Investment Directors in Asia

29 July 2015

Standard Life Investments, the global asset manager, today announced the appointments of two multi-asset investment specialists in Asia. Jason Yu and Dongyue Zhang have been appointed as Investment Directors within the Global Investment Specialist team, based in Hong Kong.

Read more

Press release

UK

Standard Life to offer tailored drawdown

14 October 2015

Standard Life, the UK's leading drawdown provider, is to introduce greater automation to its SIPP drawdown process, enabling advisers to offer a more tailored tax-efficient income solution. This will result in time savings of up to 80% on setting up and managing tax efficient income withdrawals.

Read more

Press release

UK

Standard Life: Six months on, people are keeping their pensions invested

06 October 2015

Standard Life reveals some trends in the retirement decisions of its customers, six months into the new pension freedoms and flexibilities. Only 6% of Standard Life's eligible customers have made use of the new pension freedoms since 6 April – 94% choosing not to touch their pension pots and stay invested.

Read more

Press release

UK

Standard Life calls for flat-rate incentive for pensions

01 October 2015

Standard Life is calling on the Government to introduce an incentive-led pensions regime rather than one based on the current system of tax relief. In its response to the Government's consultation on pensions tax relief, the leading long-term savings and investment company proposes moving to a new flat-rate incentive on employee contributions.

Read more

Press release

UK

Standard Life unveils financial planning business 1825

13 July 2015

Standard Life today announced its new financial planning business will be called 1825, evoking the long-term investment savings company's proud heritage. The launch of 1825 represents an exciting new chapter for Standard Life and combines the strength of one of the UK's oldest financial services brands with a modern approach to financial advice.

Read more