Standard Life Aberdeen
Full year results 2019

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Welcome and Results Overview

Keith Skeoch

Chief Executive, Standard Life Aberdeen

Good morning and welcome to Standard Life Aberdeen's 2019 full year results webcast. Even though it's a webcast, I have to show you the usual disclaimer; and I'm also joined today by Stephanie Bruce, our Chief Financial Officer; Rod Paris, our Chief Investment Officer; Campbell Fleming, our Global Head of Distribution, and Noel Butwell, the CEO of Standard Life.

2019 was another year of intense change for our industry, reiterated in early 2020 by a return to high levels of market uncertainty. 2019, for Standard Life Aberdeen, was a year when we saw momentum starting to build in the business, particularly in the second half of the year. It was a strong year for investment performance, with 74% of assets under management ahead of benchmark and an improving three- and five-year track record. We saw encouraging momentum in gross and net flows in the second half of the year and our first quarter of positive flows since 2017 in the fourth quarter. This was mainly driven by our institutional and wholesale clients, where 84% of funds were ahead of benchmark.

We continued to see net flows across our platforms and wealth businesses, helping to diversify our revenue streams. So there is much to be encouraged by as the benefits of the heavy lifting on transformation in 2017 and 2018 started to become visible. We are also rolling out our common purpose across the business to create a shared culture. The fact that we are once again winning awards, as well as new business, is further evidence of progress.

Beyond transformation, we realised £1.7 billion from the partial sales of our stake in our Indian JVs so, despite the drop in adjusted profit in 2019, we strengthened our balance sheet and importantly, given what is going on in the markets, improved our financial resilience.

This allowed us to maintain the dividend, continue to return additional capital to shareholders through buy-backs and lift adjusted earnings per share to 19.3 pence. At a time when uncertainty for the markets and industry are once again rising, the progress made on transforming the business and improving our financial strength gives us the capacity to invest in the business and the undoubted opportunities that lie in front of us.

Stephanie will now walk us through the detailed financial results, after which I will return to talk about the opportunities we see in Asset Management, Platforms and Wealth and then we'll move to Q&A. Stephanie.

Financial Results

Stephanie Bruce

Chief Financial Officer, Standard Life Aberdeen

Thank you, Keith, and good morning.

Profitability from continuing operations

So, our performance in 2019 has demonstrated momentum and delivered an increase in our financial strength. The adjusted profit before tax for 2019 is £584 million, a reduction of 10% on the full year. Now, through the second half of the year, we improved trends in the key indicators of fee based revenue and costs, contributing to an increase of 9% in adjusted profit before tax in the second half, compared to the first half of 2019.

Overall, our IFRS profit before tax from continuing operations has increased by £1 billion since 2018, to £243 million. The improvement reflects management actions we have taken to strengthen our financial position, including the realisation of gains from our holdings in our Indian stakes, offset by the accounting charge for impairment to our acquired intangibles.

This improvement in profit has also generated a strong increase in our capital surplus. The resulting adjusted diluted EPS for continuing business in 2019 is 19.3 pence, an uplift of 8%, benefiting from the actions taken on reducing the share count.

Reduction in revenue reflects impact of net outflows in Institutional and Wholesale and mix of asset class demand

Now, our business model is focused on delivering our services through four channels: Institutional, Wholesale, Strategic insurance partners and Platforms and Wealth. Each channel represents different opportunities for us, given our capabilities and current market strengths and this therefore determines the focus of our actions in realising these opportunities.

Overall fee based revenue decreased by 13% in the year, with different impacts by channel. In Institutional and Wholesale, revenue decreased by 19%, reflecting the impact of net outflows in the last three years, together with inflows in 2019 into asset classes with lower margins, as clients sought to change their risk profiles.

In Strategic insurance partners, the underlying business is mature books, which are naturally in run-off. There is an additional reduction in revenue in 2019 of £10 million relating to Lloyds Banking Group following the first tranche of withdrawals of £41 billion in the second half of the year.

Excluding the Lloyds Banking Group movements, the year-on-year outflows are lower at £3 billion, due to the benefit of net inflows of £1 billion from the Phoenix Group. In Platforms and Wealth during 2019, we have seen growth in revenue of 4%, which reflects continued net inflows in this channel.

Fee revenue yield

Turning to the fee revenue yield, overall for the year, we have seen a decrease in the average fee revenue yield, which reflects principally the volume and allocation of assets within classes.

We are now seeing the benefit from our focus on investment performance, as creating value for our clients and customers in turn supports the yields we earn on our investment services.

Aside from normal competitive pressures, we are not seeing systemic pricing pressure on any particular asset area. Rather, we are seeing recognition of the value of investment performance in a volatile and low-yield market.

For Institutional and Wholesale channels, the average fee revenue yield decreased, due principally to changing mix. This particularly reflects the move in Multi-asset, where over 50% of new flows are into MyFolio, which is lower margin, while the redemptions in Multi-asset are 60% from GARS, which are higher margin.

In the Platforms and Wealth channel, the yield on Platforms has been broadly sustained at 25 basis points. This takes account of the price adjustment for Elevate in April, which has created good, positive momentum in new volumes.

A similar action has now been driven in our Wrap platform, together with launching our draw-down price lock, which has been well-received.

The decrease on the fee revenue yield is due, principally, to the inclusion from quarter one of the Virgin Money assets, which are at a lower margin and have reduced the average by seven basis points.

Institutional and Wholesale

Now just turning to the underlying activity on flows in our key channels. Firstly, in Institutional and Wholesale, these channels saw net outflows, but we have seen an improvement of 46% since 2018, with a 77% improvement occurring in the second half of the year compared to the comparative 2018 period. We are now seeing the benefit for both new business and retention of existing business from our active focus on two key aspects: firstly, our improved investment performance, which helps generate and retain business; and secondly, our increased focus on client service and client relationships, which are being extended through a focus programme. We have been successful in adding new clients in these channels this year, attracted by the capabilities and services we provide. Our recent win of a £5.5 billion strategic advisory mandate in the US was one such example of the benefits of connecting client needs with our capabilities and improving investment performance.

In summary, all asset classes have improved their net flows position since the prior year, except for Real estate, which reflects the specific challenges in that asset class in 2019.

On Equities and Multi-assets, we have generated improvements of around 20% on the net outflows position, compared to prior year, on both classes. Specifically on GARS, redemptions are £11 billion in 2019, compared to £18 billion in 2018.

Platforms and Wealth

Turning to Platforms and Wealth channel, in this channel the factors are different. This is a large and growing market; we have strong capability, strong credentials and a sound record to date on the net inflows. We see opportunity for market share in a growing market, so our focus here is on building our book of business through connecting all elements of our existing strengths, so we leverage from the sum of the parts of our capabilities, building both the customer numbers and the activity levels with those customers. Keith will highlight shortly more details on the actions we are taking to harness value from this opportunity.

Our activity in this channel is concentrated in the UK and this has been a difficult market in 2019 due to political uncertainty. Despite the backdrop, the Platforms and Wealth channel continues to be a positive contributor of net flows and, pleasingly, this has increased year-on-year by 52%. A stronger trend being demonstrated in the second half of the year followed new leadership in our platforms and action taken on pricing practices, creating success in attracting new business. For example, every month in the second half, we have recorded higher new business volumes on our Elevate platform than the prior period, and an uptake of almost three times the number of advisor firms signing up demonstrates the stronger momentum we are now creating.

The Wealth activity was also boosted further in 2019 by the addition of the new customers from our JV with Virgin Media. In total, clients and customers increased by around 5% in the Platforms and Wealth channel during 2019.

Associates and JVs

We also have valuable interests in our associates and these contribute to our results and our capital generation. The share of profits from associates and joint ventures is 32% higher than prior year due to the inclusion of a full year in 2019 for Phoenix, an uplift of 24% from HDFC AMC, and a reduction of 14% from HDFC Life following the stake sales in 2019.

Dividends from these holdings have contributed £93 million to capital generation. Having realised significant value from the sale of stakes in HDFC Life and HDFC AMC, the value of these holdings continues to be over £3 billion. On HDFC Life, there is a lock-in on our holding until March 2021 and it remains our intention to monetise this holding over time.

Phoenix Group Holdings represents the key relationship in our Strategic insurance partnerships channel. Once the Lloyds Banking Group tranches are fully withdrawn, this channel will primarily comprise those assets we manage for Phoenix Group and Reassure. Given the Phoenix Group's proposed transaction, we are well placed to continue to serve both if the transaction proceeds.

Increased realisation of synergies and efficiencies in operating expenses

Turning now to expenditure. We have made good progress on costs overall, with a number of factors influencing the total levels in 2019. Our focus on the programme of synergies and wider efficiencies has delivered savings of 13% of the opening cost base of 2019. The additional costs in the period reflect increases on employee compensation and other inflation on third-party services. We have also chosen to increase, through acquisition, our investment in distribution channels and new capabilities during the year.

Now, while operating costs have been reduced overall in the year by 4%, our cost/income ratio has increased in the period, predominantly due to the revenue reduction I highlighted earlier. In addition, the cost/income ratio for our Platforms and Wealth activity is sub-optimal and we now have clear plans to address this position, which I will come back to shortly.

During a complex transformation, the cost/income ratio was always going to be impacted but, with the revenue decreases experienced, this has been more adverse, with the cost/income ratio at 71%, including our JVs and associates and 82% excluding our JVs and associates.

This is certainly not our goal and it's not where we will end up once we realise the benefits of our transformation activity. As we complete our transformation in a period of volatile market conditions, with revenue challenges, we do expect our cost/income ratio to remain high. And thereafter the benefits of our actions enable the achievement of our goal for the cost/income ratios to be back at levels aligned to industry averages.

Changing our cost base and the structural mix of costs is a key goal of our transformation.

Continue with progress on improving operating leverage

So turning to this slide, which shows the progression of synergy targets and their realisation since the transactions.

Now, during 2019 we have been progressing with our programme of transformation and we have now realised £352 million of overall savings since the asset management transaction.

In respect of synergies, we have now realised within our profit and loss result the benefit of 67% of the total synergy target for 2021, which includes 77% on integration targets. Within our transformation activities, we are aiming to do two things: invest in practices that are modern and fit for the future, by harnessing the benefit of new tools and technology that we did not have in the business; and secondly, change the nature of cost, creating flexibility in services which are not core competencies. This is hard to achieve and it does take time to see the benefit. Examples in 2019 including moving to new managed service provision and outsourcing of specific services in middle office, technology and change support, which will now benefit the future run rate.

Successes in transformation activity more broadly in 2019 include moving to a single HR system, completion of 79 UK custody and fund migrations, successful go-live of third-party and new funds, enhanced marketing componentry, consolidation of all UK funds and rebranding of 80% of funds. The key areas to complete are investment platform, the final fund migrations and operational separation from Phoenix.

Now looking forward on the right-hand side of the chart, we are on track to achieve the run rate of synergies of £350 million by the end of 2020. In addition, we have identified £50 million of additional synergies that will arise in 2021, taking the total synergies to £400 million, with those synergies expected to be realised in 2021, as planned.

The associated costs to achieve these synergies are also expected to increase to £555 million, reflecting additional complexity which in turn extends the duration of programme activity into 2021. The run rate for our costs of £1.38 for every £1 of synergy generated remains good and compares well with other such programmes.

In a challenging market with revenue headwinds, we are very focused on control of the nature of our expenditure base. Our actions to date have been balancing the need for cost reduction, while investing in areas that will create value and assist the structural improvement in our cost base. These actions will continue and are a shared objective across the business to support our ambition for a much-improved cost/income ratio.

Strong capital generation improving financial resilience

Now, we are ultimately focused on capital generation to deliver financial strength that supports both the investment in the business and returns to shareholders. This chart highlights the key sources and uses of capital, and I will walk through starting on the left-hand side.

We have strengthened our capital position in 2019 through management actions to realise value from our stakes, our successful completion of the arbitration case with Lloyds Banking Group, and our focus on enhancing the generation of capital from our operating activities.

Our uses of capital in 2019 have supported transformation restructuring, acquisitions of Grant Thornton and BDO Northern Ireland, completion of the JV with Virgin Money, and provided returns to shareholders of £1 billion. This completed the buyback of £750 million, announced at the time of the sale of our insurance business to Phoenix in 2018.

The financial strength we have created provides enhanced resilience, which is even more important in challenging markets. With the reduction in revenue that we have experienced and the ongoing transformation, the capital generation from our operating activities, at £333 million, shown in the box on the right-hand side of the page, is not at the levels we want, so this remains a key focus through the transformation period.

Of the wide range of activity being undertaken to support this aim, I would highlight three key factors. Firstly, having invested in the technology platform and upgraded to modern working practices, post-transformation, our cost requirements in operations and technology to support our asset management activities will be very different. Secondly, transforming our approach to sales and relationship activity is a priority for our distribution team, and we are seeing the early signs of the benefits in new business. We continue to prioritise this key activity as part of our transformation programme. And thirdly, in Platforms and Wealth, the transformation activity has both a revenue objective of expanding market share and a cost objective of delivering much-improved cost levels, through modernising the back-office practices and de-layering the manual processes. We now have specific plans for the 12–24 month period that address the issues in the cost base, which result in our cost/income ratio being higher than average. Thereafter, we will progress to our ambition to be aligned to industry leaders.

The combination of our focus on growth in Asset Management and Platforms and Wealth, with appropriate cost ratios, ensures that we are targeting increased capital generation from our operations post-transformation.

Strength of capital position generates options for shareholder value

Our financial resilience and capital strength generates options for creating shareholder value. We are able to support investment in the business and returns to shareholders as we progress through the transformation activity and into 2021. We have announced a further £400 million buyback in February 2020, which will further reduce the cost of our dividend. Our distributable reserves are £2.3 billion, an increase of 44% from 2018. Our net liquid resources have increased to £1.7 billion and our regulatory capital surplus has increased by £1.1 billion since 2018 to £1.7 billion. The full-year dividend is maintained at 21.6p, with the cash cost of the dividend continuing to decrease.

Disciplined principles for our business

So, in summary, there are four key principles driving our focus on generating shareholder value. Firstly, diversifying our sources of revenue in a changing market by focusing on growth of our clients and customers across Asset Management and Platforms and Wealth. Secondly, harnessing the opportunities we have to grow from our existing presence in large markets, by making the capabilities that differentiate us count. Thirdly, applying financial discipline in order that we 'think return' in everything we deliver, so that we invest in areas where we can improve return through growth and ensure that we obtain better return from all parts of our business. And finally, utilising our strong financial position to create return for stakeholders through investments in areas that will generate sustainable growth.

Using these principles, we have made progress in 2019, particularly on enhancing our financial strength and returns for shareholders. These principles will be central to our focus for 2020 and into 2021, to support our ambitions for generating shareholder value. I now hand you back for Keith.

Transforming Today, Investing for Tomorrow

Keith Skeoch

Chief Executive, Standard Life Aberdeen

Thank you, Stephanie. As you can see, 2019 saw building momentum across the business. We really started to feel the benefits of the heavy lifting on integration that was done in 2017 and 2018, particularly in the second half of the year. Now, dealing with market uncertainty is part of our day job, but I think it's also important to recognise that the elevated level of uncertainty that's returned to markets will accelerate disruption in our industry. This inevitably brings short-run challenges and it's important, as a management team, that we continue to focus on what we can control. Action on costs is a key focus for me and my team, Stephanie has talked you through our plans. However, continued disruption also opens up significant opportunities, providing you have, as we do, the capacity to invest. And it's to those opportunities I now want to turn.

Key channels driving our business

While many of you know our business well, I thought it's important to remind ourselves about the key revenue drivers for our business. It's pretty simple: roughly 80% of our revenue comes from our Asset Management businesses, from the Institutional, Wholesale and Strategic insurance clients in 70 countries that we serve through distribution and investment teams in 46 locations. Around 20% comes from our Platforms and Wealth business, which provide advisory and platform services to both intermediaries and end clients. These are largely UK businesses. Our associates and joint ventures in India, China and the UK add diversity and strength to our balance sheet and increase our potential pool of client and customer relationships.

Differentiating competitive advantages

The focus on investment will be driven by three clear-cut criteria: first, to expand or improve our investment capability and product sets; second, to bring us even closer to clients; finally, improving productivity through the actions that Stephanie identified. In my view, there is plenty of opportunity in both Asset Management and Wealth and Platforms, so let me first turn to Asset Management.

Dynamic industry backdrop

As ever, the asset management industry has been driven by the rollercoaster that combines the vagaries of the economic outlook with the fear and greed that drive markets. 2018 and 2019 couldn't be more different, with 2018 one of the worst-return years on record and 2019 one of the best. The result on fund flows was equally dramatic, as can be seen from the panel on the right-hand side of this slide. A combination of the coronavirus and the rapid market correction suggests that the same rollercoaster effect could impact both 2020 and 2021, with current markets levels, in my view, pricing in a global recession.

Actions taken to improve performance driving client flows

The structural improvement in investment performance, put in place through our performance enhancement plans, is bearing fruit and we are better able to help clients. 84% of Institutional and Wholesale funds are ahead of benchmark at one year, 73% at three and 76% at five years. As I pointed out earlier, we saw positive net flows at Q4. Now, it is dangerous to extrapolate too much from this, given the large and lumpy nature of these flows, yet I do believe we are witnessing, from what I see in the business every day, a significant improvement in our flows position.

Institutional and Wholesale – delivering for clients and customers

Investment performance has always been a strong driver for flows but it's not the only one. The great advantage of our integrated distribution team is the enhanced ability to match our strongest investment capabilities with client demand. We have been able to connect clients to some of our best-performing funds: the China A shares, small cap in equities, emerging market debt, global corporate in fixed income, and European property in both alternatives and private markets. Actually, we doubled gross flows in those sectors where the focus on client needs was the greatest, leading to a significant increase in our net sales rank in 2019.

2019 was a year when we launched 36 new products and 48 funds globally, throughout the risk-return spectrum. I think it's also worth noting that the 77 funds we've launched since the merger have now attracted £10 billion, evidence that the hard work to upgrade our product suite is delivering.

To maintain this building momentum, we continue to invest in launching innovative strategies and new funds, as well as rationalising those that don't gain critical mass. We invested a total of £120 million in seed capital, £23 million of which was recycled from successful funds to ensure a rapid route to market. As a result, we were recognised as one of the top ten European master groups by the success of our funds launched.

ESG fully embedded in all our investment processes and client offerings

All of this is supported by our very strong and award-winning ESG credentials. ESG is not a buzzword in our business; this is how we've been running our investment process for almost three decades. We embed ESG criteria in virtually every investment decision. There is an increased demand for ESG-specific mandates. Not many houses now listing eye-catching ESG targets can point to an outperform ethical fund with a 20-year track record.

We have long believed that you do not have to sacrifice return to have a positive impact and in 2019 several of our ESG funds generated a return as good or better than their mainstream equivalents. This is not a thesis for us; it's what we do every day.

Platforms and Wealth – diversifying revenue across channels

Turning to Platforms and Wealth, an area where we really do need to make significant progress, we have the opportunity to build on some very strong strategic foundations. We have scale, with £86 billion of assets under management and administration. We have the top advisor platform, ranked by assets and flows, and a top-ten position in financial planning.

All of us, of course, have to take more personal responsibility to invest for their own futures and this democratisation of financial risk, coupled with a larger retirement gap and the current dislocation in financial markets, present us with a huge opportunity to support customers and clients and meet their financial needs. These businesses may currently account for only 20% of our revenues; in ten years' time, they could be closer to 50%, based on the growth potential that we see.

To take advantage of these opportunities, we are bringing our successful, but fragmented, offerings together into a cohesive Platforms and Wealth division. We are focused on delivering a seamless customer experience. Transformation in this area will also improve the basic economics of our platforms and drive growth by leveraging our unique customer access. We have a focused plan well underway, led by Julie Scott and Noel Butwell, and we will share further details on this transformation activity before our interim results this summer.

Looking forward - 2020 and beyond

So, while continuing to operate in a tough and uncertain environment, everything I know after 40 years in the business says this is the time we need to be investing in our future. As we move into the final stages of transformation, my focus is firmly on ensuring that we grow and diversify our business. We have the investment track record and the distribution strength to deliver our ambitions in Asset Management. We will launch a further 25 funds in 2020 and continue to deploy seed and co-investment capital to ensure a rapid route to meeting customer and client needs. We will invest further in expanding our Platforms and Wealth activities to drive growth and diversify our revenue streams. And, in doing so, we will also build on the shared culture that we are creating through our strategic blueprint that's in today's annual report and accounts.

Using strength of capital position to create value for shareholders

All of this is being executed in a disciplined manner from a shareholder perspective. Mindful of the headwinds facing the industry and the continued volatility in financial markets, we took positive steps in 2019 to strengthen our balance sheet and improve our financial resilience. This allowed us to maintain the dividend, return additional capital to shareholders and lift EPS, on an adjusted basis, to 19.3 pence.

Our priorities are to continue to improve our operational efficiency, be tough on costs, reshape the assets on our balance sheet to sustain our financial resilience, deliver sustainable financial returns for shareholders, and invest in the undoubted opportunities that the continued uncertainty in markets is creating.

Thank you very much. Stephanie, Rod, Campbell, Noel and I will now be delighted to take your questions.

Q&A

Haley Tam (Credit Suisse): Good morning Keith, good morning Stephanie. So, a few quick questions from me, please. First of all, just to make sure I understand the timeline of your transformation programme correctly, just to confirm that you now expect that to continue – the period of transformation - to continue until the end of 2021? The second question, I'm afraid, is maybe just me not understanding something but the Multi-asset revenue yield, I think it was 43.4 basis points in the first half, 41.7 basis points for the full year. So I just wondered if that second half run rate, around 39 basis points is something we should… it is correct, first of all… and it is something we should be looking for that to continue.

And then, I guess, the final question, just on the cost/income ratio target, it's obviously necessarily the outcome of an income and a cost input. Just, given the focus on what you can control in a difficult market environment, is there anything you can say to help us understand, perhaps, an absolute level of cost target. That would be great; thank you.

Keith Skeoch: Great, thank you Haley. I think I'll hand over to Stephanie.

Stephanie Bruce: Okay, alright. So, in terms of your first question around transformation. So we are now signalling that we will be undertaking some further work, which will go into 2021, you're absolutely right. But we see ourselves still being complete in 2021 and more importantly, the synergies that we are identifying, the total £400 million, will still be realised in 2021, which was always the plan.

In terms of the Multi-asset yield, the impact in the second half of the year is really just to do with mix. I don't think we're seeing anything systemic at all in there, but I will come back to you on any of the detail that would actually have impacted that more specifically - but no, we're not seeing anything systemic in there to suggest that that same shift from H1 to H2 would then come through more in the future periods.

And then, in terms of the cost/income ratio target, you're absolutely right, it's made up of two elements and we're not going to put out an absolute target at this point in time, I think, given current environment. As you quite rightly highlight, the top line of that is clearly in very volatile circumstances in the current markets.

I think what I can absolutely say is that, in terms of the focus that we have on the costs, I hope you understand and have heard from me in terms of the series of actions that we're undertaking, we have very clear plans in terms of what has to happen, both to make sure that we continue to realise the pace of cost change that we have been effecting through the business. But also with very much the focus of making sure that where we are investing in the business, it's the right level of costs and it's actually helping us drive that future growth.

And that combination of making sure that we are getting the cost base into an appropriate process, but also investing in those areas which give us sustainable growth, allow us to very much focus on a cost/income ratio target that we feel is absolutely appropriate.

As I said, when I was going through my slides, our target is very much – as we come out of the transformation period - to be in a much-improved position than we are now, but more importantly, to get back to being aligned with our industry peers.

Haley Tam: Thank you. Sorry, can I just confirm, then, the Multi-asset revenue yield, you're telling us that there might have been something unusual in the second half and maybe I should look to a full-year figure as being a better guide?

Stephanie Bruce: No, I'm actually saying the reverse. I don't think there is anything unusual in the second half of the year; I think it's just the mix of the clients that's within that Multi-asset grouping and that there is no systemic issue there at all; it is actually the reverse. It's just a change of the mix and the clients. I will come back to you on a more specific answer on that.

Keith Skeoch: Yeah, I think, on that point, Haley –

Haley Tam: Great, thank you.

Keith Skeoch: – and we'll come back with the details, it's worth pointing out that Multi-assets, I think we manage over £50 billion now and GARS is a much smaller proportion. So, as that has had an impact, the mix has inevitably changed. And I would point out that, you know, we had good multi-asset performance last year. It's actually continued right up until last night.

Haley Tam: Thank you very much.

Bruce Hamilton (Morgan Stanley): Hi, yes, morning, maybe just on, kind of, strategic: you've got a good balance sheet, so how should we think about M&A sort of opportunities from here and where you'd be most keen to add capabilities?

And then, secondly, on your sort of fund-launch plans, you mentioned 25 funds. What are you sort of most optimistic about in terms of the launches? And kind of linked to that, I guess, at the moment I think you had a slide saying you've got about £17 billion of sustainable funds. Can you give a bit more colour on those outside of the ethical and what more you may be planning?

And then, just finally, how comfortable are you running with an uncovered dividend? Would that be for one or two years or at what point does that become more challenging? Well, just how do you think about that sort of uncovered situation? Thanks.

Keith Skeoch: Yeah. Let me take the first question and the last question and then I'll ask Campbell Fleming, our Global Head of Distribution, to come up and talk about – and answer the question on funds.

So, as far as M&A is concerned, we've been absolutely clear that one of the things we will look to do is do bolt-on acquisitions and lift-outs that enhance and promote either our investment capabilities or, indeed, expand our distribution. We've also said that we're not looking to do any major transformational M&A until such time as we complete the transformation. Obviously, markets are rapidly evolving and they may well open opportunities, particularly for us to expand. So, it's great that we're standing here, as a result of what we did in 2020 with, I believe, an enhanced level of opportunity and optionality, given the strength and resilience of our balance sheet.

On the dividend, let me be absolutely clear. The board has stated its intention to maintain the dividend until such time as our transformation is complete. Campbell?

Campbell Fleming: Thank you Keith and good morning everyone. Perhaps slide 23 is best to go back to and have a look at this, because it's quite illustrative of what we're up to. In that regard.If you have a look at what we did in 2019, I think the trend will continue for us to do more sustainable launches and more of what we call alternative, democratising the alternative asset classes. For instance, the HFR liquid alternatives fund was one of the largest grossing funds last year, in 2019, as we take these previously sophisticated products and only accessed by institutional investors more mainstream. In addition to that, you'll see that we continued to invest and launch more sustainable products and more impact-type products, as well as continued interest in our fixed maturity pieces.

As Keith said, we are seeing significant interest in our ESG practices. There's a few highlights there, but you'll see that the firm has been doing this for almost three decades; and this is coming in at a significant time, where investors across the world are wanting to make sure that, not only do they get a good economic return, they're proper stewards of capital, and that their investments are having a social and/or environmental impact on people and the planet - and the firm is well placed for that trend. Thank you.

Keith Skeoch: Anything, Campbell, you would pick out of the 25 funds we're launching this year?

Campbell Fleming: I think if you have a look at some of our equity capabilities, we are shifting that to work them more into sustainable investing, which is a significant trend. And we believe the opportunity for investors who have to think far more long term, have to think about the impact on the environment on their investment outlooks and also make sure that they're satisfying stakeholders, we're well-placed to meet those three trends.

Indeed, a survey yesterday of the top ESG firms in the world by a respected institution, put Aberdeen Standard in the top 20 globally, which is very encouraging, I'm sure. With our approach and our capabilities, we can get to the top ten.

Keith Skeoch: I think I'd also add, just to what Campbell said, that it's really important that we have a well-diversified product set that we are able to ensure that the sustainable revenue yield and revenue comes in with that.

Bruce Hamilton: Thank you.

Arnaud Giblat (Exane): Yeah, good morning, it's Arnaud Giblat here. I've got a few questions, please. Firstly, can I ask, on the Platforms, you seem to imply that you're about to embark on a technology upgrade on your Platforms; have I understood that right? If that's the case, what have you learned from looking at your peers in terms of the usual overspend and disruption we see to flows there? That's my first question.

Secondly, on costs, you gave us a very clear outline as to where you're going on the gross cost base. Can you talk a bit about the investment and you could maybe give a bit of colour and quantification in terms of gross investment? So, what next stage should we expect, at a firm level?

And my third question is on fee margins. So, fee margins have dropped five basis points, year on year. Slide 34 shows the fee margin evolution. I am wondering what is the run rate fee margin per asset class? You've talked about a mix shift. What is your exit run rate fee margins at the end of the year?

And finally, if I can just ask, are you still considering the Phoenix stake and AMC as strategic? Thank you.

Keith Skeoch: Let me start with the last two: Phoenix and AMC. The answer is yes. If I can get Stephanie to reply to two and three, and that'll give Noel time to get up to the platform to answer the first question. Stephanie?

Stephanie Bruce: Arnaud, I think, if I heard your question correctly, in terms of costs, you said, 'What is the type of gross investment that we're making in the business?' in terms of our costs. So, in terms of where we are making additional expenditure, it is about trying to change some of the nature of our cost base, particularly in terms of investing in – particularly around technology - in our back office activity. So, for example, we have rolled out this year a new HR system, which has been absolutely critical to our people, in terms of all being able to be on one system. We will be rolling out a new finance system, which again allows us to streamline. So, actually, quite a lot of investment in what I'd call the back office operational activity, which is important; but also to allow us, in some cases, to move to more managed service provision of areas where, actually, we can work with suppliers who can actually – it's their core competency, it's not our core competency - but actually we can work very well with them in undertaking some of those activities, so we're making those sorts of investments as well.

And then, in the key area of our investment, particularly around the investment platform, our investment there in terms of our investment in Charles River allows us to have very much a leading-edge version going forward and coming out of the transformation period, which is absolutely critical to our front office activities. That programme is well advanced, though we've still got a number of aspects still to move through. But where we will end up, having made those investments, will be very much more leading edge.

In terms of the fee margin exit run rate, if I'm understanding your question, obviously, as you say, we've seen a decrease in fee margin during this period. As I said, it's largely relating to change in mix, rather than any sense of systemic price issues that we're seeing. We're really just seeing normal competitive issues. And then particularly we saw that change in mix occurring between H1 and H2. In other words, we've seen less of a pressure on fee revenue in the second half of the year than we have on the first half of the year. So, we're not seeing any systemic pricing changes. We do absolutely see competitive pressures in the sector; I think that's well-known and therefore we would expect an element of that to continue.

Keith Skeoch: Noel?

Noel Butwell: So, just to be very clear about the work that we referred to in terms of transformation, this is how we decouple from Phoenix. This isn't a re-platforming exercise, which is a phrase which is used in the market and has certain connotations. What we will be doing, though, is continuing to invest and modernise our operations, but we'll be doing that anyway, so that's business as usual for us.

What I would add, though, is that you will expect to see us focusing more on experience for advisors and customers as a key differentiator in this market, so it's not a big technology project, as you will have seen from some of our peers.

Keith Skeoch: Yeah and I should just probably add and remind people on the Asset Management company that one of the things we need to do, given that we IPO'd the AMC back last August, is that we have to get to a 25% minimum public shareholding and we have until August 2021 to do that; and that will involve us selling down our stake from where it stands today to about 20%, and we will do that in a timely manner.

Arnaud Giblat: Sorry, if I can just follow up very quickly, just to be clear, the £400 million of synergies you are announcing as a gross number, it's not a net number. We should take that – we should assume some reinvestment into the business? And just going back on the fee margin, it sounds like H2 is a better level to assume going forwards, assuming that the mix doesn't change from here?

Stephanie Bruce: Well, I think certainly on that latter point, you can see the position on H2 versus H1 was different and certainly improved. And you're right, in terms of the mix impact, I think that would be sensible at this stage. But clearly, we will need to – and we will see - different movements coming through as clients undertake different decisions during what are very uncertain times.

In terms of, yes, the £400 million synergies is the gross figure, that's absolutely right. And again, in terms of the waterfalls that we're showing in the various charts, again, what we are identifying is the extent of the gross savings, and then highlighting where we are continuing to invest in the business, either through inflation around supplier costs, ongoing compensation, increases to our employees and our workforce. So, yes, the £400 million is the gross and we will continue to invest in our business.

Arnaud Giblat: Thank you.

Gurjit Kambo (JP Morgan): Hi, good morning. To be honest, most of my questions have been answered. Can I just ask a quick follow-up on the costs? So, if we look at those waterfall charts on slide 11 and 12, if we look at the cost growth, or investment, I think it was around £134 million between 2017 and 2019, it was about £114 million in the last 12 months. So, it clearly looks like there's been a bit of pickup in cost growth in the last 12 months versus the last 24 months. You know, is the last 12 months kind of more of an appropriate kind of investment phase to look for in 2020?

Stephanie Bruce: Yeah, so I think in terms of those waterfalls that you're looking at, you're absolutely right. And I think this goes to the heart of, actually, the nature of what occurs in the transformation programme. So, obviously, in the period – in the first 12 months of the programme - there were clearly a number of aspects, particularly around staff and redundancies and de-duplication of particular aspects of the team, so actually that crystallised a certain level of activity.

As we always signalled, a number of the areas around the operational aspects, the technology aspects, a number of the aspects around the non-staff costs, where we're actually making some certain changes around managed service provision and our suppliers, was always going to take longer; so actually the pattern of flows through from 2018 to 2019 has been different.

I think the point I would make is, in terms of looking at those charts, is, as I say, we're still very clear in terms of achieving our synergy target and realisation of £350 million by the end of 2020, so you can obviously therefore do the maths of what will move through in 2020. And we're very clear that the £400 million that we're announcing today – sorry, the additional £50 million that takes it up to £400 million - again will be fully realised in 2021. So, again, you can see how that will flow through into that result.

Gurjit Kambo: And then so, on the synergies, obviously the £350 million, we can take – we can make - our own assumption of how much of that comes through in 2020. So in terms of, outside of the synergies, so I guess moving from a gross to a net cost growth, you know what else – just so I understand - is the growth in 2019 versus 2018 more appropriate, or do you think the growth we saw in 2018 versus 2017 is more appropriate to get to the net number in 2020 for costs?

Stephanie Bruce: I think in terms of the position in 2019 is the appropriate level to see us, in terms of, again, this balancing through from what we're seeing coming through from synergies, together with where we're wanting to invest appropriately in the business.

Gurjit Kambo: Okay, that's very helpful. Thank you.

Operator: The next question is coming from the line of Andrew Crean from Autonomous. Please go ahead.

Andrew Crean: Hi there. Yeah, good. Three questions, if I can. Firstly, I think, on Reassure, could you tell us what sort of level of assets and fees you would hope to get if that acquisition lands for Phoenix? Secondly, if I looked at the value of HDFC Life which you hold and the 6.7% sell-down of HDFC Asset Management, it's about £2 billion. What are your plans for that? Is it still largely to be used for buy-backs beyond just the £400 million? And then thirdly, on the Platforms, I think, when you did your cost savings, you said that there was about £100 million of efficiency savings. And as I understood it at the time, a lot of that, say £70 million of that, was coming from improving the performance, the profit performance, of your Platforms and your Wealth businesses. I notice now that you don't even give the profits of those, but I assume that they haven't hit your profit targets. And, therefore, I'm slightly wondering: (a) whether you could give us the profits on those businesses; and (b) explain where the additional cost savings have been achieved, to make up for the fact that the efficiency gains haven't?

Keith Skeoch: So, Campbell will come up and talk about Reassure, but if we can do the costs on the Platforms first, Stephanie, and I'll answer the question on HDFC.

Stephanie Bruce: Yes. So, Andrew, I think the £100 million of efficiency you're referring to is the £100 million announced at the time of the Phoenix transaction, which related to the savings that we foresaw, at the time, would arise from us moving to an integrated operating model across the business, no longer having an insurance business. Part of that would have, absolutely, included our Platforms activity, our Wealth activity, but also in terms of our Asset Management activity, because it was about being able to then move to a much broader, integrated operating model.

So, the £100 million wasn't entirely allocated, in any way, to the Platforms and Wealth business at that point in time. What we are highlighting now, however, is that when we look at the totality of our capabilities that we have great strengths in across our Platforms and Wealth space we do, as I said earlier on, have a sub-optimal cost/income ratio in that regard. And we are working – and that really is now the activity that we're undertaking. Noel and Julie will be leading but Noel has particularly, as I highlighted already, the very clear plans on the Platform transformation, which will then allow us to effect those savings going forward.

Keith Skeoch: Campbell?

Campbell Fleming: Thanks Stephanie. Good morning, Andrew. Two quick things on Phoenix and Reassure. We already work with Reassure - we have a little bit over £20 billion in assets that we advise them on already. There's another £40-50 billion to play for in that regard but, until the transaction is complete, which would happen at the mid-year, it is difficult to say exactly what we might see from them during the course of 2020, or 2021 and beyond.

That said, it's fair to say that the partnership with Phoenix bore fruit this year. We saw them provide more assets to us; they also picked up significant assets in the bulk purchase annuity piece and, in addition to that, we have been working very actively with them to source the various private credit and other illiquid assets they need.

So, the performance is strong with Phoenix and Reassure. We continue to work very closely with them – both firms - and we look forward to continuing that partnership and continuing to do a good job with and for them.

Keith Skeoch: Okay. And –

Stephanie Bruce: Sorry, Keith, can I just come back on that Platforms point as well? Because one thing I should just make clear, Andrew: when Keith mentioned earlier on that we'll be coming back with much more detail around the Platforms and Wealth activity, and we'll make sure that we pick up your point there in terms of being – providing additional information so that we can see the economics of that, going forward, at that time.

Andrew Crean: Thank you.

Stephanie Bruce: And on the HDFC stakes, I'd simply refer you to that statement about we will reshape the assets on our balance sheet to sustain our financial resilience and deliver financial returns for shareholders and invest in opportunities. I think we developed a pretty strong track record on that in 2019. We have a £400 million buy-back out in the market at the moment, which we will look to complete and we'll update once we've completed that. And one of the things I've kind of learnt in 40 years in the business, given what's going on at the moment, is don't try and see around too many corners. You know, we … our track record, I think, on building that financial resilience and deploying capital in shareholders for shareholders' benefit, I think, will stand us in good stead.

Andrew Crean: Thanks Keith.

Operator: Gordon Aitken from RBC, please go ahead.

Gordon Aitken: Three questions, please. First on GARS and multi-asset: you mentioned that it performed better in recent months, and I can see from the January and February that the net outflows have come right back in. Do you expect the Multi-asset and GARS to return to inflows in 2020? And maybe you can talk about what consultants are saying to you at the moment?

Second point, on UK DB funds; obviously a big client of yours. What proportion are they, of your institutional assets and how do you think their asset allocation shifts as they continue to mature?

And just finally, on – just to follow up on - the Phoenix debate, it just got mentioned that they're pushing into bulk annuities and you're doing some illiquids sourcing for them. Is that better margin business for you than, say, traditional asset classes? Thank you.

Keith Skeoch: Yeah, on the latter, absolutely because, by and large, it goes into private market product. The HFR Index fund that Campbell mentioned is a good means of transitioning people into that as well. And then, I think, on GARS and the UK DB, we should hand over to Campbell.

Campbell Fleming: Good morning, Gordon. So, GARS year-to-date performance to 5th March was 2.8% and to the 12 months from that date it was 8.1%, so a very strong one-year number, a good five-year number, a good ten-year number and an improving third-year number, as I understand it. We are having conversations with clients about them returning to GARS. We have had clients top up GARS; we have had many consultants sustain their rating in GARS and, indeed, our consulting ratings over the financial year increased from 43 rated strategies to 46, which I think is a pretty good result, given the merger was only two years ago.

In relation to what we're seeing, we are seeing interest in private credit and illiquids, as people seek different, diversified sources of higher yields. We still see, because of various solvency requirements and things, various plans not investing in equities, which always intrigues me. And then finally, we are, of course, helping them with those alternatives and you'll see that there's been some good wins in that regard, especially around the advisory pieces that Keith and Stephanie referred to.

The big trend that is happening in that space is the shift to sustainability. That's partly driven by prudential and government mandates now, but it's also very driven by stakeholders, who want to do the stewardship, points I touched on much earlier.

And if you look at what we're seeing, both in the United Kingdom and across the globe, is an interest in ESG and sustainable in all asset classes and our credentials are well-placed. There's a significant number of wins last year from AIIB, Holland, across the globe, as we do more for that trend.

So, better margins, more alternatives, more high yield and more sustainability, and the firm is well placed from a performance and capability perspective in those regards.

Keith Skeoch: We have about £160 billion in pure institutional mandates. We'll come back to you about how much of that is UK DB. I would also just add the ESG criteria. One of the things that we are increasingly having conversations about with DB schemes, and particularly local government schemes, is our ability to manage their money and report back on ESG characteristics. So last year, I think, for the first time in a long time, we won a UK equity mandate for a UK DB scheme because of our ESG credentials.

Gordon Aitken: Thanks very much.

Keith Skeoch: You're welcome.

Operator: The next line is coming from the line of Hubert Lam from Bank of America. Please go ahead.

Hubert Lam (Bank of America): Hi, good morning; most of my questions have been asked. Just one question on your surplus capital position: you mentioned £1.7 billion at the end of the year. How much buffer would you say you need, or is that a net of the buffer position, the £1.7 billion? And of the remaining true excess capital position, how would you prioritise the potential use of capital between supporting the dividends, buybacks and M&A? Thank you.

Keith Skeoch: Stephanie?

Stephanie Bruce: So, in terms of our surplus capital, as you say, it's increased up to £1.7 billion in this period. We don't think of it in that way in terms of true excess over excess over excess, to be honest, at this time and you wouldn't – I don't think you'd expect us to do so, given the current environment. Clearly, we are very focused on making sure – as Keith says - we're getting that balance of making sure that we're investing in the business plus also creating the shareholder return.

We have said previously that, once we're through the transformation period and we are affecting the sustained performance that we want, we would again look to see, actually, in terms of, actually, what is that level of surplus capital and how we would then want to deploy it thereafter.

Keith Skeoch: I would just add, in these uncertain times, you know, what we have is a very high level of financial resilience because of that capital strength, and it gives us a degree of optionality to both invest in the business and return capital to shareholders, and look at those bolt-ons and lift-outs. So, it's opening up, I think, a lot of opportunity for us and we will remain focused on making sure that whatever we do is for the benefit of our shareholders.

Hubert Lam: Okay, thank you.

Operator: The next question is coming from the line of Mike Werner from UBS. Please go ahead.

Michael Werner (UBS): Thank you. It's Mike Werner from UBS. Just a quick follow up, as most of my questions have been asked. I guess you provided very detailed performance data for the GARS fund. I was just wondering if you could provide some incremental data for the rest of your AUMs from a performance perspective, maybe through the end of February, year to date? Thank you.

Keith Skeoch: I've got Rod Paris, our CIO, there. I think our performance has held up reasonably well, Rod, across the asset classes?

Rod Paris: Yes, good morning. We entered into this period, actually, not being particularly long-risk as a house. We have a bias to quality in our equity and credit portfolios, which is actually coming through very, very strongly in this environment. Total return funds – not just

GARS but we have many total return funds across many different asset classes – are also in positive territory. And, so far, markets are not particularly disorderly, and so we're able to manage our risks appropriately.

So, I think we're navigating, hitherto, this environment quite well. But, as you know, being open about it, this still has some time to run. But, the breadth of our capability set and the bias towards quality, I think, is exactly what you want in this environment. Thank you.

Keith Skeoch: Thanks Rod, thank you.

I think we're – we've – thank you for all your questions. I know that there's a lot going on today, both in terms of results and in terms of the market. So, on behalf of myself, Stephanie, Campbell, Rod and Noel, thank you for your time. Thank you for your questions and, with a bit of luck, we'll see you all in person before too long. Thank you very much.

[END OF TRANSCRIPT]