Half year results 2019
Standard Life Aberdeen plc

Webcast

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Results Overview

Keith Skeoch

Chief Executive Officer, Standard Life Aberdeen PLC

Good morning and thank you for joining us and welcome to Standard Life Aberdeen's interim results. It gives me great pleasure to be joined by Stephanie Bruce, our new CFO, for her first results' presentation, as well as Campbell Fleming, our Head of Global Distribution. In a few minutes, Stephanie will take us through the financial highlights but, before she does, I want to take a moment to update you on what has been a busy first half of the year. Busy, but in a good way, as we continue to drive the strategic transformation that will deliver the world-class investment company we aspire to.

In the face of tough industry conditions, with flows difficult to come by and fees under pressure, we maintained our focus on delivering what we can control and building on the resilience we delivered in 2018. This focus continues to concentrate on the three drivers that are most fundamental to our business and to delivering shareholder return: attracting assets, intensifying our financial discipline and unlocking the value from our balance sheet.

The first half did see a visible improvement in investment performance and continued resilience in gross flows, which are increasingly well diversified. We improved our access to savers and customers through new relationships with Virgin Money and Skipton and we accelerated the build-out of our advisor business. We also retained £35 billion of AUM in our settlement with the Lloyds Bank Group. There was a modest improvement in net outflows and, with help from markets, AUMA increased by 5%. All of that, of course, was made possible by the most important of our assets: our people. I'd also like to note that the leadership changes we have made are working well. Multi-asset investments and wholesale distribution are both seeing a positive impact. Rose Thomson, our new Head of HR, is spearheading a programme to improve engagement and embed a values-based culture. And of course we are benefiting from Stephanie's fresh insights.

In these challenging conditions, Stephanie has helped us intensify our focus on financial discipline. We are making progress in improving our operational efficiency through continuing to execute well on our transformation programme. We have actions in place that will deliver two-thirds of our efficiency targets. The heavy lifting and investment to upgrade our infrastructure is now well underway and, despite the associated costs, continued careful management of our balance sheet has allowed us to maintain a strong regulatory capital surplus. We are therefore pleased to announce a maintained dividend of 7.3 pence per share.

While there are increasing signs of progress, there is of course still a lot to do to deliver the strategic transformation and take advantage of the opportunities it opens up. I'll return shortly to talk about those opportunities after Stephanie takes us through the financial highlights. Stephanie?

Financial Update

Stephanie Bruce

Chief Financial Officer, Standard Life Aberdeen PLC

Thank you, Keith, and good morning.

Financial highlights

In summary, the key financial headlines are as follows. Assets under management and administration have increased since year-end by 5% to £577 billion. Gross flows have been sustained and we're seeing an improved position on redemptions, which have reduced to a level below that which was experienced throughout 2018. Net flows remain in outflow at £15.9 billion. Adjusted profit of £280 million is 10% below June 2018, impacted adversely by decreased revenues and benefiting from further improvement on costs.

Statutory profit after tax has increased from £111 million to £636 million, primarily as a result from the sale of 6% of the stake in HDFC Life. Diluted EPS has therefore increased by 20.8 pence since H1 2018 to 27.0 pence. Adjusted diluted EPS has increased to 8.9 pence. The interim dividend is unchanged at 7.3 pence.

Resilient AUMA benefiting from continued growth in our platforms and market performance

Let me now highlight a few – a number of areas in more detail. So, assets under management and administration has increased to £577 billion, benefiting by 7.5% from a recovery in markets, offset by net outflows of 2.9%. On the right-hand side of the page you can see the assets under management and administration relating to our platforms of Wrap, Elevate and Parmenion, which have increased by 11%, benefiting from uplift in markets and further net inflows of new business.

Gross inflows fuelled by demand for our wider Institutional and Wholesale product suite

Turning to gross flows, overall, we have delivered £36.5 billion of new business, which is in line with the absolute levels of the prior half-year but also represents a continuation of the improving trend of gross flows as a percentage of opening assets under management and administration.

Now, leaving aside strategic insurance partners for a moment, the rest of the business has generated and won £27 billion of new business in this six-month period. This is a higher level than for the last two half-year periods, 2% better than H1 2018 and 33% better than H2 2018. It was particularly pleasing to see improved momentum across a broad range of propositions.

Turning just to the specific asset classes, we are still seeing pressure on equities at almost 9% below inflow levels of the second half of last year. The market remains tough, with the continued focus on lowering risk profiles in the current global environment impacting demand. A high spot for equities is the interest in the China A Share Fund, which has delivered strong performance and is generating strong interest as the bestselling fund in that sector.

In multi-asset, net inflows were recorded in areas such as MyFolio, with the pressure in this asset class still being evidenced in absolute returns. In fixed income we saw an increase of flows on the last two prior periods, supported by strong interest in our offerings in developed markets credit and emerging markets.

We continue to see strong interest in private equity and European real estate and our new index of hedge funds is unique in the market and has been the most successful UCITS fund launch in the alternative space in the last 12 months, attracting £500 million since its launch in February this year.

In quantitatives, £3.5 billion of flows were received from Virgin Money, which represented the first stage of developing our partnership. I am pleased to confirm the completion of the joint venture on 31st July, which enabled the collaboration of our investment content and Virgin Money's customer base, now of course extended through the Clydesdale Bank acquisition.

On platforms, gross flows have reduced from the prior H1 2018 period, but have remained robust compared to the second half of 2018 as we see the impact of ongoing consumer uncertainty in the UK.

Turning to gross flows by our strategic insurance partners, now these by nature of the underlying business are much more lumpy and reflect the onboarding of business in those insurance partners. In this period we have received £9.7 billion of such inflows. This includes incremental flows from Phoenix Group of £1.3 billion and in addition Phoenix Group undertook a further bulk annuity transaction which gave rise to £500 million of assets for management.

To touch on global activities, we are pleased within EMEA we are reporting net inflows in this period, which is the first time since 2017. An area of disappointment is the fact that, of our gross flows, only 3% were in Asia in this period, following further difficult trading for equities.

Net outflows reduced - remain concentrated in a few strategies and insurance client books in natural run-off

Now moving to redemptions, the two key classes with adverse impacts were equities, and secondly multi-asset, as shown by the purple blocks. The outflows for emerging markets, Asia-Pacific and global equities do remain elevated, while for multi-asset the outflows are concentrated in absolute returns, but these are 44% less in the second half of 2018.

Overall GARS assets under management in our institutional and wholesale channels are now £15 billion, which is 3% of assets under management and administration. For our strategic insurance partners, shown in pale blue on the graph, the redemption flows in this period reflect the usual outflows for that book of business, namely the ongoing decumulation pattern for those clients taking income as they age and retire. We receive new funds in on a lumpy basis but, once that business is received, it tends to be persistent and moves to a natural pattern of draw-down. In other words, these flows are much less volatile on the way out than they are on the way in.

We are pleased that Scottish Widows have chosen to retain £35 billion of assets with us in real estate and quantitative. Both of these areas are key capabilities for our growth agenda. Also, through the agreed terms, we now have the pattern for the movement of those Scottish Widows assets that will be transferred out. This will be a key movement in the second half and into Q1 2020. Therefore, overall, it remains disappointing to be in net outflows. However, looking forward, our current pipeline is stronger than in prior periods and encouragingly indicates many more new opportunities, with new and existing clients. This reflects two key factors within the good work being undertaken by our distribution team: firstly, on retention of existing clients and, secondly, the active development of our client and market coverage, creating new opportunities.

As Keith highlighted, investment performance has improved. For our pipeline, this will not yet be reflected, given the inevitable time lag of investing decisions, so we are also encouraged on the positive implications that should follow this improvement in performance. However, we do continue to be cautious due to the tough markets and subdued consumer sentiment, particularly in the UK which continues to be impacted by political uncertainty.

Adjusted profit before tax from continuing operations

Moving now to the key components of the adjusted profit of £280 million. Firstly, on revenue, the reduction reflects the impact of those outflows we experienced in the second half of 2018 and further outflows in 2019, particularly in multi-asset and equities, which are at higher margins. Turning from volume to margin, the average margin has reduced by 3.5 basis points in comparison with June 2018. Underlying this are several specific factors, both positive and adverse. Firstly, margin on equities has improved by 2.1 basis points since the H2 2018 period and broadly has held constant on the June 2018 comparator at just under 67 basis points. On fixed income, margins have also increased since year-end and are back to broad alignment with those levels at June 2018. And on platforms, the margins we are earning continue to be solid and broadly consistent, at 25.6 basis points.

On the other hand, the margin on multi-asset has decreased by circa 10 basis points. This reflects growth in the volume of lower-margin Parmenion and MyFolio solutions but also in part reflects the impact of price agreements from the second half of 2018 linked to our retention activities. Encouragingly, if the current improved performance in GARS continues, those fees will increase.

Looking forward, another factor to consider is that the transfer of the now-agreed tranches of Scottish Widows assets will, once completed, have a positive impact on the average margin. So, in summary, while we continue to see an overall pressure on average margin, we are not seeing a significant long-term shift for our business at this time.

Moving to our share of associates and joint venture profits, this has increased in the period due to the impact of Phoenix profits now being recorded in this period. And on operating expenses, we have recorded an improvement, with costs reducing to £673 million.

Ongoing focus on financial discipline

Let me move on to financial discipline. Financial discipline is something you will not be surprised to hear that I see as a major objective. Coming into this role, I am looking closely at how we ensure financial discipline is applied through a period of ongoing change internally and as a result of the impact of ongoing external pressures. It is clear for any business and sector going through transformation that there is a balance to be struck: taking out costs at the right pace to achieve the economic outcome required and taking out the right costs so that space is created for the investment in those areas of growth for the future.

We remain on track to deliver the £350 million of savings that have been highlighted previously. As a reminder, this represents 23% of the baseline costs in 2017. We are making good progress and at the end of June we have undertaken actions that will deliver £234 million of efficiencies, so we are now already two-thirds complete across these transformation activities.

As we have seen in previous periods, the profit and loss benefit, as shown on the lower slide or on the left-hand side of the slide, lags the actual actions taken and, as has been highlighted before, a number of the key planned benefits in our operational and technology arenas will not be realised until the end of 2019 and into 2020. In the first half of the year, the benefit of efficiencies amounted to £103 million for the period, £206 million annualised, compared to £40 million as at June 2018. Given we are ahead on the completion rate on actions, we are expecting an increased proportion of benefits to be realised in the results in the second half of the year.

During this period we have also seen investment in acquisitions and preparation for the Virgin Money activity, together with investment in our staff through new hires and staff inflation and through acquisitions such as Orion providing real estate capability in the Far East.

Now, given the ongoing pressure on the top line of the business, we continue to look at all opportunities in terms of both our cost savings and how we are adding costs in our business in order that we increase the pace for realising these benefits and to ensure a relentless focus on the business as usual discipline. This includes accelerating the actions planned for subsequent periods, such as accelerating the review of those funds which are sub-scale and not economic, quicker streamlining of administrative processes and robust supplier cost management, and accelerating our work to aid those areas of the business where the cost-income ratios are too high for this environment. In particular, there are opportunities for us to be more agile and coordinated in how we operate across our ecosystem and we are seeking to accelerate these opportunities. Our cost profile does not lend itself to being flexed in any one half-year period to respond to the revenue challenges we have experienced. The cost-income ratio therefore has increased in the period to 72%, reflecting the changes in revenue. However, I have now intensified our financial discipline on revenues and cost to make sure the business is the right size for these conditions, with the resulting benefits for the cost-income ratio over the medium term.

The costs to achieve transformation are being funded from our balance sheet and continue to be in line with budget. The transformation we are undertaking is significant in its scale and that scale brings upside by incorporating investment in the business for the future. For example, within the restructuring spend of £198 million in the first half of this year, there are costs which represent key investments in our business and I will take just a moment to give you two such examples.

Firstly, Charles River and the front-office platform. This accounts for circa 10% of our spend in this period and provides the core data platform, on a consolidated basis, for all fund managers. The upgraded versions are far superior to the original and will place us in the top quartile for investment platform technology, thereby providing future-proofing for some years to come.

Secondly, as Keith has highlighted, our people are essential to our business so a key area of investment for us is the transformation of our HR systems and processes. This had been slow to get moving but with new focus in H1 2019 the pace has picked up and the outcome will be a consolidated system and process by Q1 2020 that will be a key enabler for connecting our people and providing an enhanced experience for our people.

Strong capital position and balance sheet supports ongoing investment and dividend policy

Turning now to our capital position. As Keith has said before, we have a strong capital position and balance sheet, which is an important source of benefit to the business and to shareholders. Key movements in this period comprised the buyback, the debt retender and the sale of 6.21% stake in HDFC Life. Overall, since the start of the year, our regulatory capital surplus has increased by £300 million to £0.9 billion. The regulatory position only includes £200 million of the £5.2 billion market value of our strategic investments, ignoring, therefore, significant value. However, regardless, our regulatory surplus is strong. We have also continued to optimise the debt arrangement, retendering debt that was Solvency II compliant but not appropriate for the CRDIV regime. We will continue to optimise our debt arrangements given ongoing consultation and change within the regime.

Interim dividend unchanged

And finally, turning to the dividend. It was highlighted clearly at the year-end that the board intended to hold the dividend throughout the period of transformation. I can confirm that the interim dividend position is unchanged. However, the estimated cash cost of this dividend has changed, with a reduction of 19% to £173 million. For June 2019, diluted EPS is 27 pence, a considerable uplift on the prior period, due primarily to the crystallised gain on sale of 6% of HDFC Life. Diluted adjusted EPS has increased 8.9 pence. This has been helped by our focus on financial discipline, combined with a 19% reduction in our share count over the last 12 months, a product of returning over £1.5 billion to shareholders via the B share scheme and buybacks.

Looking forward, the distributable reserves will be further supported by these profits, the receipt in the second half of 2019 of the compensation payments from LBG, and the continued realisation through 2019 and 2020 of synergies and transformation benefits. With that, Keith will now comment on the positioning of our business for the longer term.

Positioning Our Business for Long-Term Growth

Keith Skeoch

Chief Executive Officer, Standard Life Aberdeen PLC

Thanks Stephanie. While we continue to make good progress with our strategic transformation in what can only be described as a challenging environment, it's worth reminding ourselves that that transformation is proactively positioning the business for long-term growth. Over the next ten minutes or so, I'll focus on the opportunities opening up for us, as well as the investments we're making to take advantage of them.

Our vision: a world-class investment company

Our vision is to create a world-class investment company that has global scale, well-diversified by product and channel. We aspire to be a leader in new active investing, with reach to clients and customers throughout the savings and investment ecosystem via our platforms advice and investment content. It's these characteristics that will bring us even closer to clients and customers and help meet the rapidly-changing demands across the investment landscape.

As we continue to position the business for long-term growth, we are also helped, as Stephanie pointed out, by our strong balance sheet. This is not only a source of resilience but also a means of funding the investments in innovation, technology and people that together will improve the efficiency and scalability of our operations. Unlocking value from the balance sheet is an equally-important driver for shareholder returns.

So, what are we going to do to take advantage of the opportunities generated by that rapidly-changing investment landscape? As I did at the finals in March, I'll concentrate on three areas that are critical for successful delivery: investment performance, meeting clients' and customers' needs to attract assets and finally, utilising our balance sheet to fund investment and drive shareholder returns.

Encouraging investment performance with marked improvement in key strategies

So, first, investment performance. Performance across the house continued to improve in 2019. 53% of funds were ahead of benchmark in the year to June and for the all-important three-year track record, 65% of funds were ahead of benchmark compared with only 50% at the turn of the year. The performance enhancement plans we put in place over 18 months ago to address underperforming funds are clearly bearing fruit, as has the investment teams coming together. By the end of June Asia-Pacific equities and GARS were ahead of benchmark at one, three and five years; GEM equities, global emerging markets, are nearly 900 basis points ahead over one year and ahead at five years but still have a little bit of work to do to repair the three-year track record. However, the improvement in global equities is nowhere near as strong. It will, of course, take time for the improved competitiveness of these funds to be fully reflected in redemptions.

The improvement in investment performance is widespread and much broader than these four areas. Equities have strong one-, three- and five-year track records in an increasing number of funds. European smaller companies are 500 basis points ahead at one, three and five years. European long-term quality is over 400 basis points ahead at one and three years and over 300 at five years. The UK opportunities and long-term quality funds have equally strong records. We also have broad outperformance across fixed income, all regions are ahead of benchmark in investment-grade credit and there are strong track records in emerging market debt, total return credit and diversified growth funds. To be sure, the strength of the turn in performance has been helped by the grain of the market. However, it's also clear that the improvements in investment process and people leadership have had an equally powerful impact. It's also encouraging that this has taken place across a broad range of funds at a time when value, as a style, remains deeply unappreciated.

Furthermore, the investments to improve our underlying infrastructure, such as moving to an upgraded single instance of Charles River or the unified people system on Work Day will bring our teams even closer together and reinforce the team-based culture that lies behind investment performance.

Significant market opportunities for growth…

With investment performance improving, the competitiveness of our product suite, Campbell and his team are able to increase concentrate on attracting clients and customers. At a time when fees are under constant pressure, it's even more important to pay attention to the sources of long-term revenue, as well as asset growth. According to the Boston Consulting Group, 90% of the industry's revenue growth will come from new active over the course of the next five years. Around 49% will come from alternatives, 23% from solutions and the remaining 21% from active specialties. We have the scale and breadth of capability to take advantage of these opportunities. We are a top-ten player in alternatives, a leading provider of risk-based solutions for retail clients, and one of Europe's leading managers of insurance assets.

…as well as the drive and focus to accelerate growth

We also continue to invest by deepening and broadening our product range to ensure that we continue to meet client needs. Some recent examples are the expansion of our real estate capabilities into Asia through the Orion platform and the launch of our index of hedge funds, which now has over £500 million of assets under management. On active specialities, we continue to enhance our ESG offering and our China A Share Fund now has £2.6 billion of assets under management from us taking domestic China to clients around the world.

Access to customers

These examples underline our strength in global distribution across the wholesale and institutional channels. We also continue to invest in our reach throughout the savings and investments ecosystem. We have announced new relations with Skipton and Virgin Money that utilise both our technology and platforms to bring access to over 6 million customers. Our unique investment hub technology continues to grow at pace and now has assets exceeding £10 billion. We accelerated the build-out of 1825 with the acquisition of the advisor teams from Grant Thornton and BDO in Northern Ireland. The strategic relationship with Phoenix brings us access to 10 million customers but has been a slower start than I think either of us would have liked. Rest assured, we are taking action to ensure this partnership will deliver on its promise.

The net result of all of that is that we have access to 16 million customers and these customers have access to a broad range of offerings throughout the ecosystem, from digital self-service to traditional face-to-face through either 1825, Parmenion or the 5,000 IFAs powered by our platforms. As I said earlier, we continue to be very busy but in a good way, as we remain focused on driving the transformation that's opening up these opportunities.

Valuable listed investments of £5.2 billion

Let me now turn to the strength of our balance sheet. As well as the regulatory surplus that Stephanie has pointed out, we have valuable listed investments worth over £5 billion. We have a long and proud track record of reshaping our balance sheet as we transform our business and we have been returning capital to shareholders and we intend to continue that tradition.

To that end, we will commence a £200 million share buyback within this quarter to complete the £1.75 billion capital return we announced last year.

We are also deeply aware that these investments are held ultimately to create value for shareholders and, as we continue to reshape our business, we will also remain focused on ensuring that we unlock the value of the assets on the balance sheet. I am confident we will make further progress in the second half of 2019.

Strong business well positioned for long-term growth

In summary, the first half of 2019 saw us continue to make progress in delivering our transformation in challenging market conditions and in positioning the business for long-term growth.

We have the financial strength to invest in innovation, technology and our people, while at the same time rewarding shareholders. As we do this, I can assure you that, in these tough market conditions we face, we will be relentless in our focus on the three drivers that are most fundamental to our business and to delivering shareholder return: attracting assets, intensifying our financial discipline, and unlocking the value from our balance sheet.

Thank you for listening. Stephanie, Campbell and I will now be delighted to answer your questions. Operator?

Q&A

Operator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. As a reminder, if you wish to ask a question, please press * and 1 on your telephone and wait for your name to be announced.

The first question comes from the line of Hubert Lam from Bank of America.

Hubert Lam (Bank of America): Hi, good morning, I've just got a couple of questions, firstly on costs. You are currently about two-thirds of your way in terms of your cost synergies. I was just wondering what do you think is the possibility of maybe increasing the cost savings, just given how fast you've achieved your savings to date?

The second question is on fee margin. As you mentioned, the multi-asset margin fell by 10 basis points over the half, but you also mentioned the possibility of it increasing if the performance improves or is maintained. Can you maybe discuss a bit in terms of what performance needs to go to for that fee margin to ratchet up again and how much higher the fee margin could be if it's triggered? Thank you.

Keith Skeoch: Okay, Hubert, I'll go – we'll go to Stephanie first for costs and then go to Campbell on the question on the fee margin.

Stephanie Bruce: So, thank you. Our priority is to deliver the £350 million of savings and to make sure that we're doing everything that we can do in terms of the efficiencies. As you say, we are already two-thirds of the way through in terms of creating those actions, which again is pleasing. As you would expect, in terms of the financial discipline that I want to see coming through, we are going to do everything in terms of – particularly in the business as usual space - to make sure that we are doing everything that we can do to adjust in terms of the environment that we're in. It's not about setting new targets. It's not about trying to race to another target in an external environment, particularly at this point. The real focus for me is making sure that we're delivering on the savings we have and being able to make sure that we can get that financial discipline to apply in all areas of our business as usual activity.

And that's really where I mentioned that we want to look to accelerate as much as possible things that were already going to be planned, either towards the end of a transformation period or beyond and it's those sorts of areas that we will be bringing in. Those are the sorts of things you would expect us to be doing as part of a business as usual discipline in terms of the current environment.

Campbell Fleming: In relation to the fee margins, I think if you look at slide 13, that Keith alluded to, you'll see a significant improvement at that vital three-year number and also at the one-year number. If that continues then we hope that, (a), the outflows will continue to reduce and that also the inflows in those products which are currently – we still receive flows into them – will also pick up. As to when and how that might happen, it's very difficult to forecast and we prefer not to, but you are seeing the margin impact come through, I believe, in slide 24, which is the mixture of the exacerbated outflows we saw in that asset class in the last half and also some of the fee variations agreement that we've had put in place, which, by the way, if performance continues to improve, there will be the ability to claw back some of those fees that have been reduced.

So the trend, I believe, is significantly improving in terms of performance and, as and when that comes through to the margin pickup and the flow improvement, that's very difficult to predict. But I think if you look at the overall trend that Stephanie picked up in terms of the raw increase in gross flows and the improvement in the net flow position with the overall increase in our assets under administration and management, I'll take that in these very difficult trading conditions that Keith has also referred to.

Keith Skeoch: Okay, are we ready for the next question?

Operator: Thank you. The next question comes from the line of Gurjit Kambo from JP Morgan. Please ask your question.

Gurjit Kambo (JP Morgan): Hi, good morning, just a couple of questions, firstly just in terms of the revenue margin. So in equities the margin sort of increased a little bit, a couple of basis points I think, in the first half, so just trying to think about the dynamics there. Are we sort of saying that the – what you're losing and what you're bringing is actually not at that different levels and maybe the inflows are slightly higher to drive that revenue margin up in the first half? So that's the first question around equity margins.

And then second, just more broadly, around the flows in areas like private markets. So I guess the broader industry has been washed with a lot of cash coming in and for SLA we've seen a sort of couple of halves now where you've continued to see outflows, so just sort of what's going on there.

And then just on MyFolio, in terms of the dynamics there, it feels like the inflows have sort of held up versus the last kind of couple of half-periods but the redemptions have picked up there, so what's sort of going on in the MyFolio and Parmenion?

Keith Skeoch: Okay, on revenue margin we'll go back to Stephanie, but I think we're largely talking about a mix impact.

Stephanie Bruce: Yeah.

Keith Skeoch: Stephanie?

Stephanie Bruce: Yeah, I mean in terms of specifically on the margin and equities, as you say, we are seeing an improvement on that second half of 2018 and a consistency with the first half-year period of June 2018. But as you say, what really is driving it through, therefore, is the overall mix in volume that is moving across the overall book. I think what is pleasing is that certain areas and asset classes actually are holding, or in some cases improving, their margin overall and therefore, in terms of our diversification of costs, the activity in the period is therefore helpful in terms of our overall average margin.

Keith Skeoch: And on flows?

Campbell Fleming: Yeah, I would just add to that when you do have improving performance, improving market levels and things, you can maintain pricing. You'll see that there's been a range of good wins across the piece from many regions, both in new active equities but it's in alternatives and things. In relation to the alternatives and private markets picture, there's a thing going on there that, as strategies come to their end, they are either recycled or replaced with new strategies and that means that, until we actually draw down on those commitments, the commitments that we've won do not appear in the flows. So if you have a look at the outlook there, both in terms of real estate, private markets, private equity and the like, we do have a decent pipeline of won and not funded, and committed and not yet drawn down. So it's a normal cycle of what happens in that asset class.

In relation to the MyFolio flows, there was one significant client loss in the period which impacted it, as you picked up, and we've also launched new versions of MyFolio, new MyFolio light and the like to take advantage of people wanting lower-priced products. So we now have, basically, a bronze, silver and gold version across the piece for MyFolio. These were launched specifically with Virgin Money in mind but also to the Skipton partnership which we hope will continue to grow over the next 2–3 years.

So, going back to Keith's point that you saw with that access to those many millions of customers, we're now able to offer a range of outcomes and services at all points of the price spectrum to take advantage of those people that are prepared to pay for good active and constrained strategies right down to those people who just want a passive, or better beta approach.

Gurjit Kambo: Right, thanks.

Keith Skeoch: Okay. I think we can move on to the next question.

Operator: Thank you. The next question comes from the line of Bruce Hamilton. Please ask your question.

Bruce Hamilton (Morgan Stanley): Hi, yes, thanks for taking my questions guys. I've probably got three. Firstly, on the sort of performance numbers, I mean I take the point on some of the bright spots you've flagged but when I look at the table, I mean your three-year in equities, which is higher margin, still looks very weak at 27% above benchmark, so can you walk through which areas are still really weak and where you need to see an improvement?

And also, on the multi-asset, which I guess is another high-margin area, the three-year has clearly improved a lot but the one-year at 21% above benchmark suggests that that's probably going backwards in the short term, so I just want to understand a little more. It looks like the 65% is kind of helped by lower margin areas and higher margin still has quite a lot of issues, so maybe just help me understand that. Secondly, on sort of liquidity risk, which obviously has been a market topic, how do you assess the risks that the FCA could look at changing rules around, particularly, say, open-ended real estate funds, where liquidity mismatches perhaps look more extreme than other areas.

And then finally, on the sort of strategic investments and balance sheet, you mentioned the ability to invest in tech and so forth. Can you give us a little bit more colour on which areas you think look most interesting for investments? Is it really technology or are there sort of asset classes or other things you'd like to get your hands on? And for some of the £5 billion of strategic investment and value on the balance sheet, any of that we should think about in terms of divesting, or not being core to strategy going forward? Thank you.

Keith Skeoch: Okay. On the performance numbers, the one area which I think I called out that we are – is not doing as well, it's ahead – it's getting ahead of benchmark but the progress is nowhere near as strong is global equities, and in particular one of our large global equities has an emerging market tilt and that's what is being sold to investors. So at a time when the US economy and the US market has been relatively robust, it will take time for that to swing around. So what you're seeing is a lot of components kind of coming through.

On the multi-asset, you're looking at averages there rather than point forecasts and we are seeing across the piece, I would reiterate, that the bulk of our multi-asset funds and GARS in particular is now ahead of benchmark at one, three and five years and it is doing its job.

On liquidity risk, I think a couple of things on that. This is a market perennial that's been round for a long time. I've been through several cycles. Certainly my interaction with the FCA suggests that they're in an appropriate strategic place. If you think back to what happened with the lock up in property funds and the way in which that was dealt with post-Brexit, I think it was dealt with relatively well and conversations are ongoing about how you deal with that. So I don't see any signs yet of a knee-jerk reaction, I see rather sensible conversations about the wiring and plumbing and the liquidity ladder. And the other point I'd make on that liquidity ladder: when you look at firms like us and somebody else, although it pains me to say it, we've had those outflows from GARS and we've navigated the fund so that there are people out there that are doing things in the right place.

On strategic investment, a kind of couple of comments. When we were talking about investments in technology, we were really talking about the Charles River and the technology that connects our middle office with suppliers, where we are making investments and funding them off the balance sheet and significantly upgrading our own technology, which helps bring the teams together and we're expecting to make significant progress on that in the end of 2019. In terms of those strategic assets, or the assets on the balance sheet, we've made it clear the investment in Phoenix is strategic. I would view the (HDFC) AMC in India as strategic, but I would note – and I think it's important to understand – that we had an IPO a year ago and there we need, together with HDFC, to facilitate a minimum public shareholding of 25%. There needs to be a 25% free float in India and we have until August 2021 to do that. So there will be – we'll play our part in making sure that happens.

Bruce Hamilton: Great, thank you.

Keith Skeoch: You're welcome.

Operator: Thank you. The next questions come from the line of Arnaud Giblat from Exane. Please ask your question.

Arnaud Giblat (Exane BNP Paribas): Yeah, good morning. I've got three questions, please. Firstly, if I can come back to the open-ended real estate funds, you mentioned that conversations were ongoing with the FCA but how do you approach any liquidity risks from your side? Because when you go back to your gating experience from 2016, clearly that was triggered by Brexit – with the risk of a hard Brexit coming up and well, the UK property market is not exactly performing really well, have you repositioned those portfolios for eventual redemptions?

And my second question is on the management fee margin in the multi-asset product. Part of the drop you mentioned is part of the reprice. Is the revenue margin you're reporting a run-rate – on a run-rate basis? Did the repricing happen during the half and should we be looking – another way of asking that question is should we looking at that run-rate being a bit lower?

And finally, if I can come back to slide nine, you mentioned a £25 million difference between the cost synergies that have been achieved and those on a run-rate basis. So is that what we're looking at for H2, you starting off with a £25 million lower run-rate cost base, to which we take off some cost synergies to come and add back some investment? Thank you.

Keith Skeoch: Okay, well if I can do the OEIC, Campbell will do the fee margin and then we'll come back to Stephanie on the £25 million.

We have been working hard to make sure that our OEICs and more accurately our PAIF are in absolutely the right space and at the moment they are open. But one thing I can say is we have a principle that says we will do whatever is the right thing for our clients and our customers and we'll work with the authorities to make sure that that's in a good position. So I don't really have much to add. I think it's pointless speculating about those issues. We're aware of the issues and we've managed through them in a previous period and I think our track record actually speaks for itself.

Campbell, on the fee margin?

Campbell Fleming: Yeah, on the fee margin in respect of multi-asset, there's a very idiosyncratic thing happening here with a vintage of clients that got into the fund and then experienced a difficult period. So they're the clients in which we varied the fee arrangement and introduced a performance fee and who've stayed with us. And then, secondly, the assets that are coming in where we are winning those assets at sort of traditional rates, which remain anything north of 65 basis points and up to 80–85 basis points, depending what wrapper it is in and where it is.

So there's an idiosyncratic thing going on here in relation to a vintage of clients that we have come to sensible arrangements with and the new business that's coming in is at sort of traditional rates. So that, coupled with the mixture that we've got there, has resulted in that margin drop in that particular segment.

Stephanie Bruce: In the first half of this year.

Campbell Fleming: In the first half of this year.

Stephanie Bruce: So I think in terms of how we're looking at the guidance for this, we would not see that having an additional impact as we look forward to the second half of the period because of the reasons that Campbell has said.

If I just turn to, then, your point about the run rate, I think your question refers to the £103 million of annualised run rate cost that I mentioned that applied for this first half of 2019 versus the £40 million in the equivalent period in June 2018. I also mentioned, when I was just running through the presentation there, that our expectation is very much that we will see an increase in the run rate that we've seen in H1 2019. For the simple reason that a number of the areas were always planned to come through in terms of the benefits in the second part of the year and particularly, with quite a lot of heavy lifting that's been done in the back of end of 2018 and into the first half of 2019, those benefits were never planned to materialise (into the profit and loss account) until the second part of this year and into 2020. So as we're looking at the cost profile, we are working with the discipline to make sure that we come in at an increased run rate in the second half of this year. And I'd also just go back to an earlier point, which is that whilst we are, as I said, very much focused on delivering the targets, a key part of the discipline that I'm driving forwards in terms of this financial cost is to make sure that we continue to focus in on those BAU costs and bringing them down at the same time as well. And that includes, actually, where we will add on costs and how we will add on costs. And again, as I referenced before, that's about getting very good discipline around the ongoing business as usual expenditure reflecting the tougher conditions that we're in.

Keith Skeoch: Okay, thank you Stephanie. And thank you for your questions and thank you for coming on the call on what I know is a, very busy day and I know that Stephanie and I will be available and meet those who would like to for lunch at Bow Bells House today to answer more questions.

So, thank you very much for your questions. Thank you very much for listening and please enjoy the rest of your day. Thank you.

[END OF TRANSCRIPT]