**Half year results 2018**
**Tuesday, 7 August 2018**

**Martin Gilbert, Co-Chief Executive**

Good morning everyone and welcome to Standard Life Aberdeen's Half Year Results presentation. So just to kick off. Sorry, I should introduce the top table or whatever it's called in the presentation. Campbell Fleming, Global Head of Distribution, Barry O'Dwyer, Chief Executive of Standard Life, Bill Rattray, CFO, and Keith who, as I said, is lucky to be here. And myself, Martin Gilbert, the Co-Chief Executive of Standard Life Aberdeen.

I'm sure those of you who've been following all the recent asset management releases need no reminding that the industry is in a pretty tough place at the moment and we're no different from the industry. The pressure on flows and fees and traditional active asset management, growth of passives, ETFs all pose a threat to our industry and, of course, the huge impact of technology and disruption in our industry is also having its effect. While we do face our own challenges and outflows from strategies that have historically been hugely strong drivers of growth for us, the merger to create Standard Life Aberdeen has created a business which together is stronger and better placed for the future. The sale of the insurance operations has transformed our balance sheet and crystallised significant surplus capital, allowing us to focus on our strengths, where we see the best opportunities to achieve long-term growth and our world-class ambitions. We have a diverse range of investment capabilities, a thousand investment professionals. We're also working hard, which Keith will come back to, to improve performance in our strong capabilities of GEM, emerging markets, GARS, global equities. And as I say, Keith will discuss that in more detail later.

Importantly, we also have scale, including in distribution where our combined team is one of the largest in the industry with global reach, local presence in 46 locations. Importantly, it is building momentum, as I'll come back to later – with growing inflows returning to pre-merger levels. And also, we shouldn't forget our leading adviser platforms and our promising strategic partnership with Phoenix which provide further diversification and access to the growing retail market. This scale, and believe me, scale is important in our industry – where we feel we're ahead of the game in terms of scale by doing this merger a year ago, is also underpinned by one of the strongest balance sheets in the industry. And as we've shown with the capital return, including the acceleration of buyback this morning, we are very focussed on maximising value and return for shareholders.

So how have we done in this tough market environment? Turning to the highlights, we can see that the profit has fallen to £478 million. However, we have increased adjusted profit from continuing operations to £311 million compared to the second half of last year. And I think that is the true comparison, rather than the first half, which is pre-merger. Bill will be in touch with more detail and earnings per share figures as clearly these are not as representative as the go-forward business, which will benefit from the earnings from Phoenix, the capital return and the ongoing delivery of efficiencies from the merger. This gives us confidence in our progressive dividend policy, so the interim dividend has been increased to 7.3p. It's got XXX on my sheet here helpfully, but luckily, I managed to find the figure.

Turning to the next slide, you know, net flows remain a challenge for us and we can see that these have – total assets, I should say. Let's start with total assets, remain a robust £610 billion in what has been a very tough market. As we mentioned in May, we continued to see outflows, although these have been reduced compared to the second half of last year, as have sales. Encouragingly, when we look across all our asset classes, about 80% of the flows come from – 80% of sales, gross sales come from our non-blockbuster, for want of a better word, products. What else on flows? Continued growth of Wrap, Elevate and advice with net inflows of £2.6 billion. I think encouragingly, if we look at flows and we exclude what we would term our growth – our blockbuster products, the rest of the business is broadly in neutral flows, which is very encouraging.

Moving on to diverse gross inflows, while the net flow picture, as I say, continues to be challenging our integrated distribution teams, led by Campbell, are upping the rate of activity to improve retention and to capture new opportunities across our very diverse offering. The net outflows amounted to about 2.6% of opening assets. As I said, encouragingly, the gross inflows on the other hand are very diverse, with over 80% coming from other areas than those traditional strengths that I mentioned earlier. And momentum is returning to pre-merger levels. We're beginning to see some good traction across a very wide range of capabilities in Credit, MyFolio, Parmenion, private markets and real estate. It's also really pleasing to see that the strategic relationship with Phoenix is already working well, we've secured a new fixed income mandate, following Phoenix's first bulk annuity deal earlier this year and we're working to secure £7 billion of Phoenix mandates not presently managed by ASI.

Turning now to the platforms, which, as you know, we made a deliberate decision to retain as part of the sale of the business to Phoenix. So the diversity of flows is – our diversity of flows are also helped by these very strong retail platforms, and with the combined assets under management of over £60 billion, as you can see, we're one of the largest, if not the largest platform operator in the UK. And as I said earlier, this was helped by the strong inflows of about £3 billion coming in, in the first half of 2018. These platforms are profitable and we've reduced the cost income ratio to 82%, as you can see here from 88%, and as Barry will answer in any questions, there – we do think there is further scope to improve efficiency and drive down that cost/income ratio towards our target of 60%.

With that, I will hand over to Bill, who will be followed by Keith. Bill will go through the results in detail and Bill, I've even turned the page for you. There you go.

**Bill Rattray, Chief Financial Officer**

Thank you, Martin. Good morning everyone. Well touching briefly on the overview of the figures for the first half, Martin's already touched some in the passing, the overall adjusted profit before tax is down slightly on second half last year. But at the continuing operations level, slightly ahead at £311 million compared to £305 million.

If we then turnover, looking at the – taking it down to post-tax and EPS level, fairly normal rate of tax charge, around about 19% as you might expect. That's reduced from second half last year. Those of you who looked at it closely, there was a catch up tax charge in relation to the Indian investments that we took had a bit of a mismatch with timing last year. So I think no surprises in this period and no surprises on the tax rate going forward.

Looking down to the EPS level, you can see that overall, EPS for the period of 12.8p compared to 13.6p second half last year. But on a continuing operations, slightly up on last year. Again, part of that benefit is the discrepancy in tax rates that I mentioned second half last year. So the interesting thing here is – as we've said at the bottom of the slide, if you look at that 8.2p of adjusted EPS for the half year period and we then look at that pro forma for the impact of the post-completion of the sale to Phoenix and recognising that sale and recognising pro forma the intended capital return of £1.75 billion, that would be an adjusted pro forma EPS figure of 12p under the new regime.

In terms of the revenue margins, a little bit of reduction this half year compared to last. A lot of it down to the mix of the asset classes. There is a little bit of slippage in equities, for example, where surprisingly second half of last year was up on the first half, I think largely due to the impact of strong markets in that period. But at 67 basis points, it's still very much within our expected range that we've seen historically. So I think the theme, as we've talked about in previous discussions, is that we may still see some small reduction in the overall blended fee rate in the short term. But longer term – medium term/longer term, the gross new business we're selling is coming in at a pretty decent rate of sort of

45/50 basis points. So medium and longer term, we don't see material pressure to that sort of level.

On adjusted operating expenses, we've seen a small improvement in the cost/income ratio to just over 69% this half year compared to 70.6% for financial year 2017. I mean, clearly we're all aware that cost/income ratio was driven both by cost and by revenues and in the context of a tough period, a challenging period for revenues, we've achieve quite a lot on the cost side to begin to reduce that margin. Clearly as the cost efficiencies begin to work through more fully, we'd expect that number to continue to trend downwards towards our medium term target of 60%.

Now on the cost efficiencies as Martin, I think, has already touched on, we now have a headline figure of £350 million in total. You'll recall that we announced an expected £250 million from the merger of synergies and a further £100 million of efficiencies as we move to a more efficient operating model post the sale to Phoenix. Now, of that £50 million, we've already implemented £135 million worth. That's not to say that's all in place in the first half. It – action has been taken and these will phase in as we go forward. The benefit of that – of those efficiencies to date, we've seen a £40 million beneficial impact in the first half results. So clearly £80 million on an annual basis. We'll begin to see the further improvement come through in the second half based on that £135 million.

And then finally, the remaining £270 million out of the £350 million that we are still on course of implementing, put very simply, if we worked that through on the same pro forma share account basis post the capital return, that's effectively equal to 9p of earnings per share on that basis. I mean, clearly before any reinvestment in the business or inflation and so on.

And then finally on the interim dividend, we've continued the policy of a progressive dividend at the interim, an increase of just over 4% to 7.3p per share and again, on a – looking at the sort of annualised EPS on the pro forma basis, that would effectively give us dividend cover of 1.1x from continuing operations based on the last 12 months dividend payments. And with that, I'll pass over to Keith.

**Keith Skeoch, Co-Chief Executive**

Thanks Bill and good morning. As Martin's already pointed out, the current operating environment for asset managers is tough. The four global trends that we've long talked about, the democratisation of financial risk, the lack of trust, digitalisation and compressed returns continue to buffet the industry and are intensifying. The political and economic background is also unsettling markets and this isn't just having an impact on the level of volatility of markets, it's also affecting the structure of return within markets. The spread between growth and value on almost any measure you care to choose is at levels not seen since the TMT bubble in the late 1990s. While equity markets value growth very highly, what is valued is highly concentrated. In the US, for instance, 60% of the market's performance is driven by the top 20 stocks. This is a very odd market, one I've only seen a couple of times in a career spanning nearly 40 years, and it does make life difficult for active asset managers, particularly those who are very disciplined in their approach of identifying long term value. As the largest player in the UK and one of the largest active managers in the world, Standard Life Aberdeen is inevitably affected by these headwinds, and that's clearly reflected in our interim results today.

What I want to do in the remainder of this short presentation is concentrate on three specific areas: investment performance, investment innovation and capital strengths. The actions we're taking in these areas will not only help us weather the tempestuous environment facing the industry but also leave us well placed to deal with the long term disruption shaping the savings and investment landscape.

Our rigorous and long-term approach to delivering investment returns for clients is being challenged by the strange environment that currently pervades financial markets. This has been a particular case, as you are aware, for our absolute return funds and some of our equity funds, especially those orientated towards value and Emerging Markets. While history strongly suggests that these return environments don't last forever, I think it's also very important that we learn the lessons from periods of underperformance.

So at the same time as we brought our thousand high quality investment professionals together, we also instituted a comprehensive review of investment performance. We focussed on idea generation, idea capture and idea implementation to generate improved investment outcomes and we've put in place a number of important management actions, outlined on the slide and put in the form of performance enhancement plans. We are investing in enhanced risk analytics, we are investing in new investment talent and alongside these improvements to our processes, we are confident that this will deliver improved performance across the house. And it's also visible – beginning to be visible in some areas, so as the last couple of months, as I'm sure you're aware, we've had a minor turn in the value/growth and we can see that being reflected in improved performance in some of those equity asset classes.  However, I have to tell you, it's going to take a bit of time for the full benefit of these improvements to be felt.

The GEM three year track record may remain challenged until 2020 unless, of course, there's a very dramatic reversal in that growth versus value chart. GARS could return to a positive three year absolute return, actually in 2019 if it delivers an absolute return for the rest of the year. How that affects client appetite will, to some extent, depend on the state of the market.  GARS tends to do well when equity markets are under pressure.

While it will take some time for investment performance to have a positive direct impact on those redemptions, the same difficult markets we've been talking about are having an immediate influence on client demands.

Given that we have critical mass across alternatives, private markets, multi asset and solutions, our active approach leaves us well positioned for the growing demand for new active solutions, which according to the Boston Consulting Group will account for two-thirds or $23 trillion of the increase in industry AUM over the next four years, so a very significant opportunity indeed. Our conversations with clients, which Campbell can talk about, at the strategic level have emphasised the importance of investment outcomes, the new active to their risk budget. And of course, a focus on investment outcomes has been a key feature of our innovation agenda as we've looked at outcomes and accumulation, preservation and the income space. Where we have good performance track records and can deliver investment innovation to meet those demands, this creates an opportunity to have a positive impact on gross inflows. It's an area where we have a strong record, enhanced by bringing together our investment capabilities across the merger. Over 10% of our AUM is sourced from funds launched over the last eight years but that rises to 20% if we exclude the more traditional insurance assets. We have launched 20 new funds our strategies in the first half of 2018 and they're spread throughout the risk/return spectrum. We've got plans to launch another 20 by early 2019. These fund launches are designed to improve as well as diversify our product suite. I firmly believe this is territory where Aberdeen Standard Investments is a leader in the industry.

While the markets and operating environment has created some serious challenges for both us and the rest of the industry, I think Martin and I both believe those challenges have reinforced the strategic logic behind the merger. The need for scale, not only to weather the storm but also to invest in the business and reshape it for the future, is even clearer today than it was 18 months ago. In the 12 months since completion, a lot has been done to reshape the business. Integration, as Martin pointed out, is progressing well. We are simplifying our business and we're putting in place a new global operating model that embraces modern working practices, lays the foundations for a common culture and helps deliver the £350 million of cost efficiencies that Bill talked about. And that will ensure we are right sized for the future.

As we reshape our business, we also continue to simplify our balance sheet and make sure that it's appropriate for not just our business model but also our shareholders. We have a long and proud track record of reshaping our business and our balance sheet and returning capital to shareholders and we continue, we intend to continue in that tradition. The first phase of this is to return, as Bill said, up to £1.75 billion of capital as we shift from Solvency II to CRD IV and optimise our regulatory balance sheet. And of course, we’ve announced the acceleration of the buyback programme today with an initial tranche of £175 million starting in the next couple of days. Even after this significant return of capital, we will have one of the strongest balance sheets in the industry, buttressed by the value of our investments in India and in China as well as the strategic partnership with Phoenix. We are deeply aware these investments are held ultimately to create value for shareholders and as we continue to reshape our business, we will remain focussed on ensuring the assets on the balance sheet are an important source of benefit to shareholders.

In summary, over the last 12 months, we have made good progress in integrating and reshaping our business, we’ve taken actions to improve investment performance and continue to invest in innovation through increasing our new active offerings and growing our adviser platforms. This, together with the enhanced partnership with Phoenix, makes us confident that this will be reflected in flows over time. There’s still work to be done but the foundations are in place for a modern dynamic world-class investment company that’s well placed to deal with the disruptive forces reshaping the industry and all of that will enable us to deliver £350 million of cost inefficiencies and return £1.75 billion of capital to shareholders. As we do all of that, we will continue with our long track record of ensuring the assets on our balance sheet are an important source of benefit for our shareholders. Our focus on shareholder value is even sharper than ever.

Thank you. With that, myself, Martin, Bill, Barry, Campbell and some of the Executive Team in the audience will be delighted to answer your questions.

**Question 1: Gordon Aitken (RBC):**

Thanks. It’s Gordon Aitkin from RBC. Three questions, please. First on platforms, generated £1 million this year and nothing last year. I mean, the actuary in me tells me that’s infinite growth but we certainly expected quite a bit more and why not more? And when do you think, say, triple digit PBT is likely from the three platforms?

Second on GARS and equities. Those are where the big outflows are. Can you – you’ve updated us before on the consultant view giving us a number of sort of ratings and if you can just tell us where we are with consultants at the moment.

And finally on costs, I mean the costs are £27 million lower year on year and revenue is down, so those sort of cost savings are going to be lower than £27 million. Can you just square that with the £135 million you say are already implemented, thanks.

**Barry O’Dwyer:** Okay, fine. If I start off with the platforms. The numbers you’re quoting, Gordon, are the continued operation, so it includes the advice business and other things, such as the return on the pension fund surplus. As Martin covered in the presentation, if you strip out and look just at platforms, the profit was £14 million up from £12 million last year, so not quite the infinite growth but 17% growth. And as you know, we've got operational leverage there, we've got a very scalable model, about half of the revenue growth is falling through to the bottom line, we think we can improve that as we become more cost efficient. So I suspect you'll just have to model when we'll get to triple digits on that basis but it's a model that's – well it's obviously a business that's going strongly and it does have operational leverage, so we will get there relatively fast.

**Campbell Fleming:** On the consultant piece, we remain in a very good shape with our consultants. You'll see the gross flows in GARS are still – we're still attracting money in that and we're still attracting money in our core equity propositions as well. So you know, confidence by – from our consultants and clients in those core strategies have been reinforced by this very thorough and frank assessment of what we need to do to turn performance around and, you know, we're encouraged in the outlook in that regard.

**Bill Rattray:** On the costs, the £27 million you refer to half year on half year is obviously correct. I mean, the £40 million that I referred to earlier is based on the full year 2017 rather than individual halves. I mean, clearly you'll see there was a bit of a mismatch first half, second half in 2017. Couple of reasons for that. I mean, clearly in the first half, we were in the run up to the merger, a number of potential projects were probably deferred pending the merger because there was so much going on. And as we reported at the year end, there was a one charge of around £20 million in the second half of last year, just relating to aligning the accounting treatment for the Aberdeen deferred compensation.

So the – how that relates to the £135 million, as I mentioned, clearly the £40 million benefit in the first half this year is £80 million annualised. The £135 million, just to try to be clear, is where we've taken action to implement a saving but it hasn't actually begun to benefit yet. So you know, a simple example, we've served notice on a contract but there's a notice period. We've taken the action to end the contract but the saving doesn't begin for a few months. So that £135 million put very simply, the extra £55 million over the £80 million, you're entitled to expect that will phase in during the course of the second half, so will probably get, say, a 50% benefit in the second half in addition to the £40 million and then the full benefit in 2019.

**<u>Question 2: Johnny Vo (Goldman Sachs):</u>**

Thank you. It's Johnny Vo from Goldman Sachs. Just three questions please. Just – again, just on the margins, I noticed that your margins on the platform appear to be higher than your competitors. So is it fair to assume that any sort of cost saves that you'll make will be washed away by margin decline on platform and therefore your operating leverage that you hope for maybe not as much as you think? That's the first question.

And then related to that as well, given the critical mass of your platform at £60 billion, you know, is there already critical mass there where net inflows are affected – or gross inflows are matched by outflows and therefore it's very difficult to grow beyond that point.

And the final question is just in regards to the Phoenix flows. What type of margins are you expecting on the Phoenix flow? Thanks.

**Barry O'Dwyer:** On the platforms, we don't anticipate margin decline. In fact, we've held the revenue margin pretty stable since, well, for the last three years. We haven't seen the margin on Wrap declining. We've had a margin improvement on Elevate since we've acquired it, so we increased the cost of the platform for new clients coming on. So if anything, we've seen a little improvement, if you like, in the gross margin. As client fund accounts get – account sizes get bigger, then we pass some discounts on to clients and so we see a little bit of movement but you'll see in the numbers today the movement is tiny, it's around about a bp difference year on year. So we're not anticipating margin decline. We've got a very differentiated premium proposition in the market and we have attracted a lot of flow, particularly at the top end of the market into very large subcases, for instance benefiting from DB to DC transfers. So we think we can maintain that.

On your second question in terms of whether we get to the point where gross inflows are matched by outflows. Not really.  I mean, if you look at our outflow performance, about 70% of our outflows from SIPP, on Wrap for instance, goes back to the customer in terms of regular income or in some cases deaths because our book is sufficiently mature. Only 30% of our outflows actually leave the platform to go to a competitor.

**Johnny Vo:** What size [inaudible].

**Barry O'Dwyer:** I think we're well away from that size yet. I mean, what's driving growth in the – in our platform but in the platform market more generally is the movement from back books of typically insurance companies onto modern platforms. So there are hundreds of billions left in that market to transfer yet, so we're well away from reaching that point. I'll pass then to Martin for the Phoenix.

**Martin Gilbert:** Yeah. Just on Phoenix, I think we would guide you toward 10 basis points just across the board on Phoenix. Some will come in higher and more recent alternatives have come in higher but just to be conservative, I would just take 10 basis points across the whole inflows and hopefully we can improve on that.

**Question 3: Arnaud Giblat (Exane):**

Good morning, Arnaud Giblat from Exane. Three questions please. Firstly on India. Could you perhaps give us an update as to whether you're seeing any interest from potential strategic buyers for your Indian insurance or asset management business.

Secondly, on cost savings, the guidance is pretty clear. How does that – how Are you thinking about investment? Is there anything – any quantum you're guiding towards there?

And finally, on capital surplus, you helpfully updated us on the capital surplus and Solvency II. How's that looking under the new CRD IV regime?

**Keith Skeoch:** Okay. Yeah, on India, I've been absolutely clear that we're deeply aware these investments are ultimately held to create value for shareholders and we remain focusing on sharing the assets on the balance sheet are an important source of benefit to shareholders, and yes, we do from time to time get some inbound enquiries. Bill.

**Bill Rattray:** Yeah, I mean, on the cost, there's not a specific number we're going to mention in terms of investment into the business but clearly, we are committed to ensuring we take every opportunity to achieve organic growth. So you know, whether it's by specific project type expenditure or it's by provision of additional seed capital, etc., you know, we'll look at this update you as and when.

Well in terms of the capital surplus, clearly we've moved to a very different sort of dynamic. CRD IV as opposed to Solvency II. I mean, on the one hand we've released quite a lot of capital, but against that, as you know, we lose the benefit of the debt which currently ranks as capital under Solvency II. You know, that's part of our strategy to sort of reengineer that debt, sort of redeem part of it and perhaps restructure or repaper another part. But I mean, as we mentioned before, it's – the absolute figure in terms of the capital requirement won't be clear until we have more formal approval from the regulator but the indication we've given before is that the total capital requirement for the group under CRD IV is going to be something of the order of £1.0 billion to £1.2 billion. And at that level, you know, we'd expect to have high hundreds of millions of headroom over that, which, clearly a much smaller number than you're used to seeing under Solvency II, but of course asset management is a very different business.

**Question 4: Hubert Lam (Bank of America Merrill Lynch):**

Good morning, it's Hubert Lam from Bank of America Merrill Lynch. Three questions from me. Firstly, on fee margins for your blockbuster products. Just given the outflows you've seen in GARS and the EM equities, was wondering if you had to reduce fees to try to keep the assets on-board. First question.

Second question, on the cost savings. Maybe Bill, if you'd remind us on the phasing of the £350 million of cost saves, does that mean– £135 million, does that mean is that what you're expecting in 2019 or should we expect more than that. Just maybe if you could remind us on the phasing.

And third question in regards to your management structure, you've seen that the other merged asset manager recently lost one of their co-COs. Wondering if longer term if you still think this is...

**Martin Gilbert:** Well let's take that one first. Luckily for Keith and I, it's not our decision. It's up to the board. So you know, we'll continue to serve the board as long as they want us both there or whatever.

What I would say is that it's probably – the structure has probably exceeded most people's expectations. We think it works very well because we have – we have different personalities, different strengths and we have different areas of responsibility in the business. But as I say, look, it's not – as the co-CEOs at Henderson's found, it wasn't their decision either. So maybe we get on better than –

**Keith Skeoch:** We're enjoying it. We're having fun. So that's the most important thing.

**Martin Gilbert:** Anyway, back to more important matters such as fees. We will do whatever we need to to retain clients and we are looking at that as and when it's appropriate and I don't know if you want to add anything to that Campbell but we obviously model – you know, it's better to retain a client on a reduced fee than lose the client, so it's simple maths.

**Campbell Fleming:** The only thing I'd add, Martin, is that, as you pointed out, 19% of our gross is still coming in to those traditional blockbuster products and, you know, we're doing well at maintaining fees there. You know, for significant mandates, and we could go through a list of those that we've won, we are maintaining and sustaining good pricing on them across the globe as our clients want to do more with fewer providers and the strength of the merger, as you've seen by the diversity of the flows has been around, providing more choice and more products to those clients. And I think as you see, as we're moving to pre-merger levels and let's remember last year, that first half, strong first quarter, then we announced the merger, second half was, you know, we were on hold, we went through the consolidation of our client facing efforts and activities were low the first half this year, as Rob had put the investment structures in place and we've settled down our distribution effort, we're back in business, back to pre – better than pre-merger activity rates. And you know, I'd just point you to the 81% of flows that are coming in, new actives coming through Barry's business and coming through those strategic partnerships. And so, you know, we're sustaining prices and getting back to, hopefully, better levels.

**Bill Rattray:** On the phasing of cost savings, the £135 million referred to earlier, we're actually ahead of the game, ahead of where we expected to be at this stage. You'll recall the £250 million of merger synergies, we said we'd achieved 75% of that within two years of closing, so by August 2019 and we're still on track to do that, so you can see we expect to be at £190 million by that stage compared to the £135 million.

In terms of the additional £100 million of efficiencies, you know, post the sale to Phoenix, that will largely impact – begin to impact 2019 and we've said we'll have the full £100 million in place by the end of 2020.

**Question 5: Andrew Crean (Autonomous):**

Morning, it's Andrew Crean from Autonomous. A couple of questions. On the Indian ventures where you're – that are ultimately held for the benefit of shareholders, can you tell us whether you'd be looking to sell those on the release of the handcuffs or whether you'll still respect the suggestion you made with HDFC that you'd look to open the float, I think, sometime in 2020 and 2021, whether that's still your timing? Then secondly, could you go into a little bit more detail on the £100 million of cost savings or cost efficiencies? How much of that is cost savings at the centre, how much is trying to boost the profitability of the platforms and the distribution businesses? Can you give us a little bit more detail there?

**Bill Rattray:** Yeah, I mean, just on cost savings point, it's – we would answer that question in a slightly different way. I mean, it's very much about moving away from the idea of having separate business streams. I mean, clearly we will still operate a platform, business will still operate an asset management business but we will very much be a single company as opposed to two separate divisions with a group at the centre. So I think the only meaningful answer I can give you is it's a little bit of all of those. I mean, what we're looking to do is remove unnecessary duplication of costs. You know, some of it is also – as we referred to last time, it's avoiding costs we might otherwise have had to incur in the future had we not simplified the business. So very difficult to split it down in granular form.

**Keith Skeoch:** And on India, we will stick to the statement that I've said and as far as mechanics are concerned, you know, anything we do is really for us to do. Oliver.

**Question 6: Oliver Steel (Deutsche Bank):**

Oliver Steel, Deutsche Bank. I'm just wondering how large the retail – the old Standard Life with profits members stake is in you today. It may be perhaps one of the reasons why the shares have been so weak, if they've been selling. And perhaps you can give the comparative period for year end 2017.

Secondly, if you believe the market, it puts a very, very low valuation indeed on your fund management business. You've twice, Keith, mentioned that you recognise the value of the Indian JVs, etc., for shareholders. Does that mean that when you sell those businesses, you will actually be returning that money to shareholders rather than investing them into the fund management business? I think that's quite a key issue.

Thirdly, Bill, you talked about at one point one times pro forma dividend cover. Now, not all of your IFRS earnings are cash, so I'm wondering how you interpret that dividend cover to us.

**Bill Rattray:** I mean, the comparison I gave, the dividend cover I gave was an adjusted earnings per share, which as you know, is before the main non-cash amortisation of intangibles. So yes, accept we've got some deprecation in there but it's a relatively small item in the scheme of things. So without having actually done the detailed calculation, you would still be looking at sort of one times, just ahead of one times.

**Oliver Steel:** And you're happy with that?

**Bill Rattray:** Well, we're not happy with that in the longer term, no. We're looking to regrow from that basis.

**Keith Skeoch:** On the question of retail shareholders, an interesting one, I don't think there's been any significant change in our retail shareholding base, which largely reflects the with profits holders between the two halves of the year but we'll check and get back to you. Kenneth Gilmour and Paul McKenna, Oliver, are at the back of the room from Co-Sec, they would be able to give you more detail. On India, I'm going to stick to the high level principles and say we're not going to look around too many corners. You know, we do have a long and proud track record. As we reshape the business, we've reshaped our balance sheet and as part of that we have returned capital to shareholders. And as I said in the presentation, that's a long and proud tradition we intend to continue with.

**Question 7: Gurjit Kambo (JP Morgan):**

Right, good morning. Gurjit Kambo JP Morgan. I think this is one for Campbell. Just in terms of the distribution, obviously you've launched 20 funds you're looking to launch another 20, how are you thinking about what funds you're launching? Is it looking at competencies you have in the business or is it really driven by demand? And secondly, as you become more diversified with lots of more funds, how are you positioning those funds in the market in terms of distribution?

**Campbell Fleming:** Yeah, great question. So let me give you an example. Keith and Martin have touched upon this new active and also what we're doing in driving the quant innovation.  So for instance, our global corporate bond tracker was one of the top ten selling index funds in Europe. We've launched a smart beta, low volatility global equity fund, we're working on £4 billion of other quant type strategies for some of our strategic partners. So it's this mixture of responding to some of the secular industry trends for lower volatility, lower cost funds where we believe we can provide a better proposition in that space and it's also responding to how we industrialise and democratise some of our institutional capabilities, whether that be in multi-asset and our multi-asset business now is not just GARS, we've got an award winning high performing diversified growth fund, we're winning – you know, we won a £0.5 billion mandate from the United States to provide tactical asset allocation to a very large public institution there. You know, we're launching products in Taiwan to take advantage of this outcome piece and we're also working very hard with our strategic partners, especially Phoenix and others to bring new solutions and strategies into that place. So it's this mixture of taking out the new active capabilities, responding to the threat and challenge of passive and also starting to take into the mainstream some of our other longstanding and other capabilities. You know, even in the equity space where we've had some tough performance, we're winning big mandates and launching products there and I'd point you to the small cap flows, I'd point you to Latin American flows and I'd also point you to things like our China A-Share performance where we've also launched our first WFOE product onshore in China. So, you know, this diversity, the mix of our business from strategic partners, Barry's platform and the opportunities from our distribution effort. Just on that, the combined distribution effort pre merger was 700 people. We're down to 500. With the combination of the platform business we've got another 150. So we've got a 650 person strong sales force now operating working hand in glove with our investments team as they've set out their stalls. And as I've said before, it's a contact sport. It's spending time with clients and talking about those opportunities and also at the same time defending the book of business we have.

**<u>Question 8: Greig Paterson (KBW):</u>**

Good morning, Greig Paterson, KBW. If you look at the emerging markets and the equity mandates, I was wondering in terms of one year performance, what decile you'll be sitting in on average in the league table performance, so we can get a feel of where you are there.

Second question is when you spoke about the 9p pro forma benefit from cost savings, you said that is before any reinvestment in the business. I wondered if you could give us an idea of what your sort of annual run-rate of reinvestment in the business would be so we can see the net cost saving benefits.

And then also just to get a feel for the sort of staffing at the asset management business. In terms of investment professionals, I wonder if you could just tell us how many you've lost over the last six months and how many new hires you've had over the last six months, so we can get a sort of feel for the morale in the new capacity or lost capacity.

**Martin Gilbert:** Yeah, I think – I think your question on – if I picked this up wrongly, please correct me, was on the performance of emerging market equities. I think we've seen a sharp improvement over the last couple of months as the market dynamics that Keith was alluding to have come back and in fact, Asian equities are ahead of benchmark now and as – the issue we've had in performance numbers has been more value orientated than growth. So for instance, in Asian equities, not owning Alibaba, to take an example, down to the stock specific level was really a major detractor from performance. So the fact that Alibaba's reversed, shall we say 20 – I think it was 20-25% has really helped performance. So in equities, it can shift very, very quickly, especially if the market dynamics we were alluding to change.

**Greig Paterson:** [Inaudible].

**Martin Gilbert:** Well we – the segregated mandates don't tend to work on league tables, they tend to work relative to benchmark, so we're behind benchmark over one year. But as I said on Asia, which is a large component of emerging, we're ahead of benchmark year to date and I think over one year but certainly year to date. And year to date numbers tend to be very important in our business. But I do stress that we do need to see – you know, we want to see that change in the market dynamic that we get more down to a more fundamentally driven market, more of a stock pickers market rather than a liquidity driven market, which is what we've seen in equities just globally in terms of – as I say, in terms of equities but especially in US large cap is where we've really seen the battle between passive and active.

**Bill Rattray:** Yeah, on reinvestment into the business, I mean, it's not really that easy to give you a specific number. I mean, we haven't set aside a specific amount for that purpose. As I mentioned earlier, we'll invest in the future growth in a number of ways. I mean, some of it may be projects which will be a cost through profit and loss, some of them may be capital expenditure, some may well be the provision of additional seed capital. So that's one that the board will take the decision at the appropriate time and the planning stage and clearly we will update the market as we think we've something meaningful to say.

**Martin Gilbert:** But Bill, I think it's worth making the point that asset management traditionally has not been a capital heavy business. It's been very capital light. In fact, it's fairly normal to see about a 100% conversion into cash. I think the area we probably will need to see some investment is probably in the platforms to continue that growth in the platform business.

**Greig Paterson:** [Inaudible].

**Bill Rattray:** I think it's difficult to separate that from the activity being undertaken to change the operating model to create the merger efficiencies. I mean, if you look back a bit further, I guess maybe somewhere in the order of £50 million in the half year historically but it's a changing landscape.

**Keith Skeoch:** On the investment people, I realise there's a huge amount of noise around. I would say a couple of things. The first is really important. The number of people we've lost that we would like to have kept you can count on the fingers of one hand and, you know, that is really quite important. And we've had a really proactive approach to these performance enhancing plans. We're investing in our new talent and we're investing in the people that we think are fit for purpose for the future. The other thing is we are out there, we are actively hiring in the market, and that's a regular phenomena which Rod and I are engaged with. We have no sense, no sense whatsoever that investment professionals don't want to come and work for Aberdeen Standard Investments. Quite the reverse. They recognise the scale, they recognise we're ahead of the game and actually the recognise the importance of what we're doing. So actually, we're getting really good traction with some talent and that's not just in the UK, that's around the world and that's quite important to us.

**Greig Paterson:** [Inaudible].

**Keith Skeoch:** We'll give – we'll get that to you if it's important Greig.  Sorry any other questions over here?  No.  One at the back.  And then probably we should make that the final question because I'm aware there are other presentations to go to this morning.

**<u>Question 9: Mike Werner (UBS):</u>**

Thanks. Mike Werner here, UBS.  I'll try to make this quick.  You say on slide 4 that you have a good pipeline of business that's been won but not yet funded. Any indication of the quantum around that figure, at least how that may have compared to previous years?

**Martin Gilbert:** It's definitely up on previous half year. I was going to say £8 billion. We'll come back to – I think it's round about £8 billion. I've got it somewhere.

**Mike Warner:** And then just a quick follow-up. In terms of flows, Q1 versus Q2 or at least kind of the exit rate in the – at the end of the first half, any indication as to what moment is in terms of flows during the first half of the year? Thanks.

**Campbell Fleming:** Yeah, I mean, if we straight-line the first half to the second half, then we'd be £76 billion for this year, plays £66 billion last in terms of gross. So we're hoping to sustain that momentum and, you know, as we said, the pipeline, the won not funded looks strong. There are other opportunities as well with Phoenix that Martin and Keith have told you about and you know, we continued to work hard to convert that significant pipeline which is, you know, across the globe over a couple of hundred billion. Now we won't convert all of that, of course, but you know, we're working hard on doing it as much as possible while we defend as hard as we possibly can. And that's hand to hand combat at the moment.

**Martin Gilbert:** I think the number, just to confirm, was £8 billion of won and then another £3.6 of already won but not funded and that would tend to be something like a property mandate where the money comes in when you've invested it or an alternative mandate.

**Keith Skeoch:** Great. So thank you very much. I hope what you've heard this morning is that we've made really good progress in integrating and reshaping our business. We are taking action to improve investment performance. We're investing in innovation and of course, we are very focused on delivering through that high quality balance sheet, strong shareholder returns over the medium term. Thank you very much and have a good day.

**[END OF TRANSCRIPT]**