



Assets and Flows Update Analyst Conference Call

Friday, 15th December 2017

Martin Gilbert, Co-Chief Executive

Good morning, Martin Gilbert here. I'd like to welcome you to this call. I'm joined in London by Bill Rattray, our CFO. And Keith Skeoch, my Co-Chief Executive; and Barry O'Dwyer, Chief Executive, Standard Life, our Pensions and Savings business, are in Edinburgh.

I'm going to hand over to Bill to spend a few minutes highlighting some of the key themes, and then Keith, myself, Barry and Bill are very happy to take any questions you might have. Bill, do you just want to give a few opening remarks?

Bill Rattray, Chief Financial Officer

Thanks Martin. Good morning. Standard Life Aberdeen is making good progress towards creating a world-class investment company. Assets under management and administration were stable throughout the period we're reporting on, totalling £646 billion at 30th September.

Net flows are in line with our expectations, and momentum in the business is good with £58.6 billion of gross inflows during the period. That's similar to the equivalent period of last year.

Within Aberdeen Standard Investments, growth channel net outflows has improved slightly. Within that, there was an increase in institutional outflows where market conditions remain challenging. But against that we saw a reduction in net outflows from Wholesale, where we're benefiting from improving customer sentiment.

Our Pensions and Savings business, Standard Life, saw record net inflows, up 40% to £6.3 billion for the nine months, further demonstrating the benefits of diversification as well as our investment company business model. Combined assets under administration across the retail platforms Wrap and Elevate now exceeds £50 billion, benefiting from industry-leading net inflows of £5.4 billion. Net outflows within the mature books of business were stable at £12.8 billion.

As we said at the time of the merger, the strategic rationale behind the combination of Standard Life and Aberdeen Asset Management included the complementary nature of our investment capabilities. And we've been pleased to note that our clients also recognise this.

We're seeing particularly good momentum across a wide range of products, including particularly strong demand for emerging market debt and multi-asset solutions, including MyFolio, Parmenion and our range of diversified growth funds. We also launched a number of new funds including the Global Equity Impact Fund, the European Logistics Income Investment Trust and the Secured Credit Fund with strong backing from investors. And we're winning new mandates across a wide range of investment strategies as we continue to focus on meeting the growing demand for 'new active' solutions.

Turning to broader strategic developments, I'd like to highlight our recent registration as a private securities fund manager in China, as well as the successful IPO of HDFC Life in India during November. This resulted in proceeds to Standard Life Aberdeen of around £370 million, highlighting the fantastic journey the business has been on.

The shares have performed strongly since listing, which is a testament to the attractiveness of its investment case. And it's also pleasing to note that our associate, HDFC AMC, the second largest mutual funds company in India, has also recently announced its plans to IPO.

In terms of progress in the integration, we remain firmly on track. And we're delighted with the way the teams are coming together to deliver for our clients. Around 2,000 employees are expected to have moved premises by the end of 2017, with moves in New York, Singapore, Seoul and London already completed, while our new Group headquarters in St. Andrew Square, Edinburgh is now fully occupied.

In summary, Standard Life Aberdeen continues to demonstrate momentum. We remain well positioned to deliver ongoing growth as we continue to innovate and increase collaboration across our businesses. And with that, I'll hand back to Martin.

Martin Gilbert: Thank you, Bill. Very happy to take any questions you might have. So, if we could open it up to questions, please.

Question 1: Haley Tam (Citigroup):

Good morning, everyone. One quick question for me please. If I'm looking at the momentum in net outflows in the growth business through the quarters, it does seem to have deteriorated quite significantly, so from about £3 billion outflows in March to £6 billion or £7 billion in Q2 and Q3. Could you talk us through some of the dynamics there please?

Martin Gilbert: Yeah, I don't think anything too dramatic there. I must admit, I haven't picked that up. I'm just having a look at the numbers.

Bill Rattray: Haley, you recall the –

Martin Gilbert: It's cash liquidity, isn't it? It's mainly – sorry, it's mainly the cash funds, Haley.

Bill Rattray: Yeah. But if we go for – Haley, and you recall on the Aberdeen side, the March quarter was particularly good as well. So, still net outflows but a big improvement on the previous quarters. And we did signal at the time that, you know, that wasn't to be treated as a typical quarter.

Haley Tam: Thank you.

Martin Gilbert: Yeah. No, there were – sorry, Haley – just to pick it up, it was because of the big inflows into the cash fund. Yeah, that was a particularly good quarter for cash, Haley. And then we see the reversal as our liquidity clients put money in and then pay the dividends. They usually use it typically, and then take it out when their dividends are payable.

But I think, if anything, I'm encouraged by the redemptions. I think the thing that – just going on from your question, I think the thing that probably we expected, and it's probably come through, is that actual gross inflows have been slower this year than we would have expected if either of us hadn't done this merger. So I think that's where we're seeing the effect, is people not funding or waiting to see how the teams are going to settle down going forward.

Question 2: Andy Hughes (Macquarie Group):

Hi, thank you very much. A couple of questions if I could. The first one is: any idea what you're going to use the disposal proceeds from, from India – obviously the sell down of HDFC Life and also the asset management business?

And the next, the second question was on flows as well. So how much – any idea how much of the flow you're seeing at the moment next to – ex the cash liquidity point you highlighted, how much of that is due to the merger? And you know, how much of it would you expect to return naturally, and how much of it is just market conditions and performance? Thank you very much.

Martin Gilbert: Yeah. I think answering your second question first, I mean, I can count on the fingers of one hand the number of clients that left because of the merger. I think the thing that's encouraged us more than anything else is the acceptance globally that in the asset management world, with all the challenges that asset managers face, you either have to be big or small. And I think that that has been very encouraging. Again, I'm encouraged that redemptions are less than last year. I think flows – gross inflows will pick up next year once we start to get the distribution team settled down, and once the shape of the fund management teams is known.

As to what we're going to do with the cash at the moment, I think just retain the cash resources, maintain our progressive dividend policy, and no other uses at the moment for it.

Question 3: Colm Kelly (UBS):

Thanks for taking my questions. Just firstly on the Aberdeen outflows, obviously there's continued deterioration there. You mentioned before this is more of a cyclical issue rather than structural. But, you know, given the improvements in the market flows, we're not seeing that translate to the Aberdeen flows. So what specifically gives you confidence that, you know, that can be turned around? And again, given the performance of the funds, vis a vis the percentile ranking isn't showing the positive momentum. That's the first question.

Secondly, on GARS Institutional flows, I'm just wondering if you can give an update in Q3 of the trends that you're seeing. Obviously, there was a negative trend at the half year on that.

And then thirdly, just on the private markets and alternative asset classes. So that's obviously been flagged as a key growth channel in terms of inflows going forward and one that you're looking to grow quite strongly. Currently, we're seeing outflows in that asset class as well, so again maybe talk about some of the drivers and the confidence that that can be a key growth area going forward. Thank you.

Martin Gilbert: Yeah. Okay, well, I'll let Keith answer on GARS. But just on the Aberdeen numbers, I think one of the things you've got to – you've also got to take into account is that we are still closed on emerging markets, so we do – when we see big flows coming into emerging markets, we don't see it coming into our equity funds because the big funds are closed to new inflows. But where we do see it actually is in emerging market debt, where we're seeing some nice healthy flows.

Performance is picking up in Asia, picking up in Global once we start to throw off some pretty bad years. So the three-year numbers are going to start improving. And in Emerging, I mean, I think what has hit us is our quality style has really not benefited us, as a lot of Chinese – the Chinese market has done well, the Alibabas of this world and the Tencents. Although we do own Tencent, we don't own Alibaba. So I just use those as examples of how I do think and how we are sort of relatively encouraged.

Keith, do you want to pick up on GARS?

Keith Skeoch, Co-Chief Executive: Yeah, thanks Martin. And hi Colm. Yeah, I mean, I think the first thing really to note is that we have seen a marked improvement in GARS performance. If you look at the gross numbers over the last year, we're basically about 380bps ahead of LIBOR, and we've seen a steady improvement since the fourth quarter. Interestingly enough, peak outflows for GARS were in the fourth quarter of last year.

Where we're still continuing to see most of the outflows coming through is in the Institutional channel where there's a lag from the poor performance in 2016, having an impact particularly on the late adopters in the Institutional space.

I would say, however, that on a more encouraging note, if you look at the Wholesale channel, which tends to be a little bit more performance-sensitive, actually we did see a

significant reduction in the level of outflows in the third quarter. So, you know, modest improvement in the third quarter, but Institutional remaining the same. And I wouldn't expect Institutional to improve until we get through the New Year.

Martin Gilbert: Just on private markets and property, what I would say, I think the one area where we did see some effect of Brexit, was definitely the open-ended property funds. And we've both seen quite large – both big funds that we have, have seen quite large outflows, probably several billion. But against that, the property team are having the best year they've had for many, many years. And you maybe saw yesterday that we got a closed-end fund away – £187.5 million. Eight of the 12 funds that were out at the time pooled, and I think we're the only fund that's launched in this quarter.

So, I think certainly property, very encouraging, and the same with private markets. We're seeing so much interest in the world around in private markets – fund of hedge funds, we just won a \$1 billion mandate in property multi-manager in Japan, it's definitely the area where we're seeing a lot of growth.

And to pick up on Keith's point, Institutional is still tough, but in the Institutional space, definitely, private markets is where all the interest is.

Question 4: Charles Bendit (Berenberg):

Hello, and thank you for taking my question. I've got a couple on flows. First is about the EM funds. So you're closed on new money, but I was just wondering whether you've seen a recovery in gross outflows. And if you could also comment perhaps on the global fund, that would be great.

And then the second question was about the insurance assets that Aberdeen used to manage within the multi-asset category, which used to comprise a significant amount of the net outflows for the Group. And I was wondering, have those now been re-categorised to mature assets? Thank you.

Martin Gilbert: Yeah, I think they've been – we've used the way Standard Life used to report. And I think it's a much clearer way of reporting.

As to those two asset classes you mentioned, definitely seeing a reduction in outflows in those areas. You know, as I say, performance in global, we expect the three-year numbers to recover once we start throwing off some bad years. And hopefully, oddly enough, the correction in China should help us. An interesting statistic I always throw out: in 1999, the US market peaked at 62% of the Index. And where are we again today? At about 62%.

So, you know, our underweighted position in the US has definitely harmed us. And certainly, our defensive quality bias has definitely hindered us in this market, that growth has really been the predominant area to be over the last three to five years.

Charles, does that answer your question?

Charles Bedit: Yes, thank you very much, that's great.

Question 5: Arnaud Gibrat (Exane):

Yeah, good morning. I've got three questions, please. Firstly, on the use of proceeds from India; I understand you want to retain the capital. Is there perhaps an opportunity to refinance the balance sheet in a more efficient way?

Secondly, thinking about how these proceeds and your intention to ramp up new funds, should we be expecting an increase in the amount of seeding into new funds?

Also, in relation to the new funds, I'm wondering, do we need to wait for a three-year track record to see any momentum build? Or do you see potential to start to see some flows pick up before that?

And finally on synergies, could you perhaps give us an update? I found your comments interesting on the relocation of offices, so what sort of timeframe are we looking at to realise the synergies? Thank you.

Martin Gilbert: That's four questions, Arnaud, not three, you know.. No, I mean, look, yeah, we're always looking at ways of making the balance sheet more efficient. So that's clear.

I think you're right, seeding will increase going forward, I think. Not markedly, but it's not going to go down.

And to go on to your next question, the way to get funds off the ground without a three-year track record, are to seed them. So hence you've got a choice. And we saw that with the closed-end fund that we just raised. We helped – we put out a bit of co-investment, not a significant amount of money, but certainly it definitely helps when we've got new funds coming out, when they see the asset manager putting money in themselves.

And then lastly on synergies, I mean, look, we'll update you on synergies in February. But look, we've – both of us have a long track record of delivering on synergies. And I would just say we're confident on delivering the number that we've put out in the prospectus.

Arnaud, does that answer?

Arnaud Gibrat: Very clear, thank you, yeah.

Question 6: Andrew Sinclair (Bank of America Merrill Lynch):

Thanks. Good morning, everyone. Two quick questions if that's okay. First, I just wondered if you could give us a bit more detail on where you're seeing stronger and weaker pipelines for gross flows coming into 2018. Actually, I'm going to ask you a third question if that's okay.

Secondly, just wonder when you finally do expect to have the teams settled down, both from the asset management perspective and distribution.

And third, if you could give us an update on the Scottish Widows relationship, if that's okay. Thanks.

Martin Gilbert: Yeah. Look, I'm not going to talk about the Scottish Widows relationship because we're, as you know beyond what we say in the prospectus.

Secondly on the teams, I think early next – some of them are already settled, some of them we're still working on what the final shape of that team will look like.

And as to where we're seeing interest, I think the great thing about this merger is it's taken us both away from being perceived as having a single strength. And what we're seeing is interest in credit, we're seeing interest in property multi-manager, private equity – we're winning money in all of these areas – fund of hedge funds, as I say, property. So it's the other areas, actually, oddly, of the business where we're most encouraged.

Keith, anything you want to add on that? I mean, I think it just feels good.

Keith Skeoch: Yeah, I think, as well as those individual strategies, a lot of interest coming through on, you know, those outcome-orientated propositions. MyFolio continues to do very well, the Parmenion platform does well. And I just wonder, Barry, you know, given that you've got really strong flows, you know, what are the product areas you're seeing?

Barry O'Dwyer, CEO Standard Life Pensions and Savings: Yeah, momentum is still strong in Pensions and Savings, as you'll see from the numbers. But, as you called out, Keith, MyFolio continues to sell very well. It fits very well with the compliance processes that IFAs have and continue to put into their businesses around centralised investment propositions, where they map clients to a risk profile. So, in my business, it's solutions like MyFolio that are continuing to show momentum.

Andrew Sinclair: Thank you very much.

Martin Gilbert: Yeah, I think – I think I missed out emerging market debt. And we're seeing good flows there: the Indian Bond Fund; we're launching a China Bond Fund – local currency. So, I mean, there's a lot – there's huge numbers of possibilities there all over the place.

Andrew, does that answer your questions?

Andrew Sinclair: That's great, thank you very much.

Question 7: Oliver Steel (Deutsche Bank):

Good morning. Two questions, the first is that there's been chatter over the last few months about what you do with the insurance business, other than obviously the annuities business. And yet it's the only place in the business where you're actually seeing net inflows. And you do talk in the statement about the value it adds in terms of diversification. So, I'm just wondering if you want to comment publicly on what you're intending to do with the non-annuity insurance businesses.

And then sticking with the insurance businesses, the amount that you seem to be winning from your own insurance businesses into the asset management business seems to have fallen. In fact, you seem to be seeing net outflows from your own insurance business in relation to the fund management business, even though the insurance business is actually seeing net inflows overall. So, I was just wondering what is going on there.

Martin Gilbert: Yeah, I'll hand the second question over to Keith and Barry. But I mean, the – let me just publicly say the Pensions and Savings business is a very valuable source of inflows to us. And it's one we would – we want to retain those inflows. So, you know, it's doing, as you say – the great benefit of it is it gives us access to the defined contribution market, whereas in the pure asset management world, you tend to be very much focused on defined benefit markets. So that's the great strength I think it gives us.

I don't know which of you, Barry or Keith, want to pick up that second question from Oliver.

Keith Skeoch: Oliver, are you looking at the table on page three, which shows Standard Life Savings?

Oliver Steel: Yes, those.

Keith Skeoch: Right. Those are actually flows off the mature books, so they're the longstanding customer books. So that's pretty much as we would have expected. I think it is the case that we are still – if you look at MyFolio and the other flows that come into the Asset Management business from the Standard Life book, I think we're net flow positive, Barry.

Barry O'Dwyer: Yeah. Oliver, on the growth channel, so in the Wrap and – well, the Wrap platform in particular, we still have over 20% of assets with Aberdeen Standard Investments. So, it's – and that's hovered around 20% in terms of proportion of inflow pretty consistently each quarter. So there's nothing to worry about there; the machine is still working as it always has.

Oliver Steel: Okay, can I just check then? So the gross inflows and outflows from Standard Life Pensions and Savings is basically in the top split where you split it by asset class. Is that right?

Barry O'Dwyer: Yes, that's right.

Oliver Steel: Okay, thanks very much.

Martin Gilbert: And I think what Barry's saying is the percentage is still – of that is still around about the long-term average.

Keith Skeoch: Jakub and Neil will be delighted to, you know, walk you through the detail.

Question 8: Andy Hughes:

Hi, guys. Just on the disclosure, the most – I think the most interesting, probably, breakdown – for me anyway – was the ASI growth AUM by class detail, which is in the

spreadsheet but not in the document. And that's only kind of nine months. Is there a half-year version, though? Because, obviously, that breaks down the net flows by global equity, APAC equities, EM equities, MyFolio etc. I mean, maybe you could include that in the kind of pdf version as well. It might help a bit when people get round to looking at the results.

If you can't – and I guess the question was, if you can't say anything –

Martin Gilbert: I'll let Jakub give you a call on that afterwards because I'm not quite sure what you're –

Andy Hughes: Right, okay.

Martin Gilbert: But he'll give you a ring on that.

Andy Hughes: Yeah, no problem. And then the question was, if you can't say anything about sort of Widows, can you say anything about Ignis? Is that being reviewed, or is that sort of finally signed in terms of the post-merger stuff? That would be really helpful.

And I think if I look at this sort of spreadsheet thing, it's showing kind of – if we go back to – the sort of second question is I guess the global equities for the first nine months looks like it's only had net outflows of minus £0.6 billion versus sort of full year last year, £7.1 billion of net outflows. So is that global equities business now in positive net inflows for the quarter?

Martin Gilbert: I wouldn't go that far.

Andy Hughes: Okay.

Martin Gilbert: It's – I mean, Andy, as I say, looking a lot better. So let's just put it like that. But – and it's tracking off some bad years, so I would say that it's neutral at the moment, hopefully. And then the question on Ignis, I'm not quite sure what the question is but I'll ask Keith if he can shed some more light.

Keith Skeoch: Sorry, I'm with you. What was the question again, Andy? On Ignis?

Andy Hughes: It's – yeah, is that being reviewed as part of the change of control, or is that sort of staying –?

Martin Gilbert: No, no.

Keith Skeoch: Ignis is – oh Phoenix – sorry – Ignis was the asset management arm. That's fully integrated, and we have a very strong relationship with the assets we now manage for Phoenix, yeah.

Andy Hughes: Okay, thank you.

Keith Skeoch: There's no change control actually.

Question 9: Gurjit Kambo (JP Morgan):

Hi, good morning, it's Gurjit from JP Morgan. Just a quick question on Parmenion. So obviously, you know, a very good nine months – £1 billion of inflows on an AUM base of £3 billion. So, I just really – you know, what sort of thoughts are around what's driven such strong growth there? And also, you know, are you sort of – is there an opportunity to leverage Parmenion across the wider sort of platform businesses that you have with the legacy Standard Life business?

Martin Gilbert: Yeah, I mean, look, Gurjit, I mean, that business has far exceeded our expectations when we bought it. I mean, far exceeded, actually, is an exaggeration; it has exceeded in – on the up side. And I'd be – Barry is obviously looking at how he looks at our total platform strategy.

But one of the reasons it has been successful is that we – and when I mean 'we,' I mean the legacy Aberdeen – have left it alone in Bristol. So I think, you know, we just want to be careful and look at how we can move – how we can use all our platforms and what market segments they're sort of targeting.

Barry, I don't know if you want to pick up and pick up some of your other platforms as well that are doing particularly well at the moment.

Barry O'Dwyer: Yeah, I suppose just on Parmenion, you're – as Martin said, it operates in a slightly different segment and has a different proposition than Wrap and Elevate. So, actually, they do complement each other very well. The Wrap, as you know, is targeted at the wealth manager end of the IFA market; Elevate is targeted at the generalist IFA market. And those two are sitting alongside each other very, very well.

Elevate, as you've probably heard me say before, has exceeded all of our expectations. We expected 2017 to be a year of outflow for Elevate, post the integration. In fact, we're seeing strong inflows. So that positioning of Elevate alongside Wrap has worked very, very well. And Parmenion, as I say, operates in a different segment. And as Martin has said, we're looking at how we position all three alongside one another going forward.

Martin Gilbert: The message, Gurjit, is they're all doing pretty well, which is nice to see – inflows coming in – and all, as I say, very, very good.

Gurjit Kambo: Excellent, thanks for that.

Martin Gilbert: Gurjit, does that answer your question?

Gurjit Kambo: Yeah. No, it does, that's great. Thanks very much, yeah.

Martin Gilbert, Co-Chief Executive

Great, thanks. Yeah, thanks again for joining us this morning. To summarise, we're making good progress to our vision of a world-class investment company. Integration is on track,

and we remain confident of delivering long-term value for our clients, our people, our shareholders. So thanks again for joining us, and we will be releasing full year results on the 23rd February. So, thank you again.

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