Standard Life

Merger and Q1 2017 Trading Updates

Wednesday 10 May 2017

Keith Skeoch, Chief Executive

Good morning to everybody and thank you for joining the call, particularly at short notice. Some of you may have noticed that there is a technical problem with our external webcast provider. I think the slides associated with this call will be in your inbox, however I'll go through the talk and it think I can do that without reference to the slides.

As you will have seen Standard Life have now published its circular in relation to the proposed all-share merger with Aberdeen Asset Management and a prospectus in connection with the shares that Standard Life intends to issue and to allot to Aberdeen shareholders. I realise it's a busy day so I'll limit my remarks to what's new with the merger and of course provide you with an update on the assets and flows which was also part of the prospectus.

So turning to an update on the merger I'm pleased to let you know that the integration planning to deliver the £200m of synergies per annum is progressing. We have created an integration office led by Colin Walklin and Andrew Laing. Individual teams are having their initial meetings not just in the UK but around the world, so the process of getting to know you and putting some flesh on the bones of the integration process is underway. That I think does give us confidence that we believe that 75% of the annual run rate of synergies are expected to be delivered in the second year post completion.

As this merger accelerates our strategy to create a world-class investment company I think it's also important to note that we have now applied for the merged business to be reclassified from the FTSE Life Insurance sector to the Diversified Financials sector.

The other important part of the merger is, of course, the regulatory and merger control clearance. The initial submissions have gone in and continue to be progressed and we hope to complete the merger subject to regulatory and merger control and shareholder approvals by the middle of August, in fact our target working day I think is now 14 August 14. And to that end we have also announced today the future management structure, including the composition of the future Board, as well as the names of the future holding company and the combined investment in management business holding company.

As we have previously announced, turning to the Board, the Board will be drawn equally from both organisations. We have also agreed on the membership of the executive committees of the enlarged group and the asset management business which will again call upon from the extensive talent from both businesses.

As far as integration is concerned we have already announced that this will be jointly led by Andrew Laing and Colin Walklin, and that effective oversight is being provided by the Chairman's Committee comprising the Chairman, Deputy Chairman as well as Martin and I.

The four of us are meeting on a regular basis and already providing effective oversight for the integration planning process.

In terms of the names of the combined Group at the plc level the name will be Standard Life Aberdeen plc and the name for the asset management business will be Aberdeen Standard Life Investments Limited. We are still currently working on the detailed branding of the combined entity and the asset management company and we will reveal more in due course.

With the publication of the prospectus and circular as well as the Aberdeen scheme document the next important dates in this timetable will be the middle of June where both sets of shareholders will vote on the approval of the post-merger, and as I said previously, all being well we are on track for completion subject to regulatory approval on the 14th of August.

Turning to our business update and our assets and flows, for those of you with the deck these are given and outlined on slide nine. Standard Life made further progress in the first three months of 2017 as we continued to see growth in assets under administration to £362bn, up just over 1% since the start of the year. This growth was driven by inflows across our growth channels and positive markets, but it was partly offset by the usual outflows we see from our more mature books of business.

It was particularly pleasing to see that short-term investment performance has improved since the start of the year with the number of third party funds above benchmark over one year up from 20% at the start of the year to 77% at 31 March 2017. Our long-term investment performance has remained strong with 73% of third party funds above benchmark over three years and 86% over the five year period.

Turning to our growth channels, which delivered £300m of net flows in the first three months of the year, you can clearly see that Standard Life continues to benefit from channel diversification. Our Workplace and Retail channels continue to attract strong demand from customers with net inflows up 40% over the same period last year to £2.1bn, most notably within our Retail business where our Wrap platform has benefited from the growing need for financial advice with net inflows up 49% to £1.6bn. Our newly required Elevate platform continues to perform well and is seeing strong net inflows of almost £300m as Elevate clients recognise our commitment to the platform market.

Our Institutional and Wholesale flows were lower with outflows of £1.8bn in the quarter. However, excluding GARS which saw outflows of £2.8bn, net inflows improved from £0.1bn in the first three months of 2016 to £1.0bn in the first three months of 2017, which shows the benefit of diversification and the continued innovation across our broad range of new active capabilities.

So to summarise Standard Life continues to benefit from both our investment company business model of multiple distribution channels and diversification strategy, both of which will be further enhanced by the proposed merger with Aberdeen. We remain confident about our capability to capitalise on industry trends and meet the evolving needs of clients and customers and of course to deliver enhanced returns for shareholders.

With that I will now hand back to the operator to open up the lines and take any questions you may have. Thank you.

Question and Answer session

Question 1: Haley Tam, Citigroup

Could I ask two questions please? First of all on the 800 headcount reduction that you highlighted in the documents last night, could you give us some idea of where we might expect those to come and perhaps how much of the £200m cost reduction will come from headcount reduction?

And the second question just on the GARS outflow Q1, for those of us who are perhaps a little less familiar with the mix of your business in Standard Life, could you give us some colour on what those were in the second half of last year, what momentum there is there and what kind of margins we see on GARS versus the rest of your business? Thank you.

Answer: Keith Skeoch

On the headcount we're not yet disclosing the composition of where that headcount is landing. I think there are two points that are really quite important to note though.

One is the 800 will be split obviously over the three years. The other critical point is that if you look at natural attrition the combined entity sees natural attrition of about 10% per annum, so during the normal course of events we should be able to get reasonably close and minimise the amount of compulsory redundancies.

In terms of the GARS pattern, Haley, I think if you look at the quarterly flows second half of last year we saw total outflows of about four-and-three-quarter billion, I think £4.6bn was the actual number, and Q3 was £1.6bn, Q4 was £3.0bn and it appears to have settled down at about £2.8bn in the first three months of this year.

Quite important to note that GARS is currently ahead of its absolute return benchmark. So during that period we have also seen an improvement in GARS performance.

Question 2: Anil Sharma, Morgan Stanley

Morning guys. Similar to Haley I'm quite new to the Standard Life story so just if you could help me on slide 10, if I think about these flows excluding GARS, what are the revenue margins on these? Which sorts of products are they going into, is it the insurance products or the investment management products? And am I right in assuming GARS comes out at around 75 bps? That would be helpful, thanks.

Answer: Keith Skeoch

Yes GARS is broadly coming out at 75, so actually there's very little material effect on the revenue margin. Quite a lot of the £1.0bn is coming into our new active product, so there's a combination of MyFolio, private markets, there are definitely a few liquidity products in the mix. But I think the guidance we've given previously is that across asset management on the third party book our revenue yield is about 50 basis points and what we're seeing in the first three months doesn't really change that average revenue yield.

Obviously the strength in the Retail market and the Workplace market is by and large going into insured products. But it's worth noting I think that in the shift from DB to BC that we're benefiting from some of that is going into stuff like MyFolio and this year we did see a much better ISA season than we saw in 2016.

<u>Question 3: Gordon Aitken, Royal Bank of Canada</u>

Morning Keith, three questions please. Firstly on GARS can you just update on the consultant ratings and what's going on there?

Secondly, you just mentioned MyFolio, can you update on why the flows seem to have slowed in the first quarter and comment on the regulator's view of model portfolios?

Thirdly, you just mentioned there you've applied to reclassify the shares into a different FTSE sub-sector away from insurance, what does this say about the future of the insurance business within the Group? Thanks.

Answer: Keith Skeoch

Thanks Gordon. As far as GARS is concerned there isn't I think any real new updates. We continue to be on hold or watch with some consultants. There are some consultants elsewhere in the world where we continue to win new business in GARS and its suite of funds. If anything I've been pleasantly surprised by the long-term attitude that people are taking to this product.

MyFolio we continued to see flows. There was a modest dip in one month associated with one IFA changing its investment strategy and moving to passive. As far as I can see from continued flow data that was a monthly blip and MyFolio flows remain robust.

We have not had any detailed conversations with the regulator about the IFA use of model portfolios. I would point out that MyFolio is not a model portfolio it's part of the componentry that we provide to IFAs and discretionary fund managers to help them build up their model portfolio.

On the FTSE reclassification I would be careful not to read too much into it, what you're seeing is our shifting the shape of our business through this merger, accelerating our strategy to create a world class investment company and of course, as you will well know, that reclassification will by and large reflect the source of revenues and profits within the broader Group. I've always said that a world class investment company is a combination of world class asset management and world class pensions and savings.

That said we continue, and we have always looked at the composition of our business and the benefit it brings to shareholders so I really don't have anything to add to what I've previously said on the subject.

<u>Question 4: Abilash P T, HSBC</u>

Hi Keith, just one quick question from me. On the investment performance for the one year performance horizon it's improved starkly, is that driven mainly by GARS or is there other funds that have also driven that improvement in investment performance?

Answer: Keith Skeoch

Thanks Abilash no it's across the board. Quarterly numbers can be volatile and reflect sometimes the kind of volatility of markets so what we are seeing is, in sharp contrast to 2016, much more growth-driven markets, some of the equity valuations and some of the bond valuations that we expected to emerge are taking place and with that you're seeing a recovery in investment performance. So it's across the broad swathe.

Question 5: Daniel Garrod, Barclays

Hi there, Keith, I just wanted to pick up on the two earlier questions about revenue margins by the channels that you outlined. Did I understand it right that the average across the whole ex-GARS piece is 50 and you're saying that there is no change in that? Can you give any more colour on how much variation there is in that 50 between the six different elements on slide 10, just to give us an idea of what might cause more movement on a quarterly basis against that 50 basis points?

Answer: Keith Skeoch

I think if you go back and you look at the disclosures in our prelims document there's a table at the end that shows you revenue yield by channel. Just to be absolutely clear the average revenue yield on SLI's third party book of business including GARS is just over 50 basis points. The guidance we have continually given is that as we continue to build out our suite of new active products we would expect that revenue yield to remain above 50 basis points and I haven't seen any reason to change that guidance.

Again referring you back to the prelims documentation if you look on page 31 of that there's a table there which shows what I regard as our five year five year forward product suite and that gives you some details of what we are selling and what we expect to sell other than GARS. But just to reiterate the 53 bps does include GARS.

Question 6: Marcus Barnard, Numis Securities

Going back to Gordon's question on the structure of the Group going forward, you've put a comment in the document saying that you will evaluate the shape and composition of the combined Group's businesses including its insurance book. It's quite clear you're reviewing what you're doing there can you just put a bit more colour on that in terms of is that the mature stuff or the spread business or just what you're thinking behind that statement?

Answer: Keith Skeoch

Well first of all I think I've been pretty clear since I became Chief Exec that our focus on shareholder value means that we continually review the shape of our business and what's generating value. One of the things that I've also been pretty clear about is that our annuity book is something which, in an ideal world, I would like to dispose of if I can generate value for shareholders. But I've also been equally clear that at this level of interest rates that the capital associated with that annuity book would actually transfer with the book to any buyers leaving no additional return for shareholders.

So if the climate changes, if interest rates rise significantly from here that is something that we would look at doing and that would help reduce the insurance nature of our balance sheet.

I have to say I can be very patient here because the transitional arrangements that attach to the annuity book pretty much run down at the same pace as the annuity book and we constantly review the returns as you would expect to us from the various books of business. So you would probably note that we really have done also a couple of things: we've increased our exposure to India through increasing our stake in HCFC Life to 35% and also recently we've shifted the shape of our exposure to China by selling in effect our Hong Kong business to our China JV partner which maintains our exposure but actually does improve, I think, the economic characteristics of that exposure.

Those are examples of things we have been doing with the insurance books.

Question 7: Lance Burbidge, Autonomous

Morning Keith, a couple of questions from me. The data that you've given today on the net flows I guess covers about a month of the post-announcement so I wondered if there is any change in the inflows, outflows, net flows before and after?

And the second point is on specifically the eliminations line which has reversed in Q1 2017 which, given that it's a negative, I just wondered whether that means there's any change in the internal funds that the new customers or the old customers are choosing in terms of Standard Life?

Answer: Keith Skeoch

I think it's simply that there were GARS redemptions on Wrap and so that's reversed down. It's just a pretty simple technicality Lance. Jakub can go through it in detail with you if you'd like.

Good question given that the numbers only contain I guess a month of flow post the merger announcement. I've been pleasantly surprised. I think I would characterise clients and consultants as neutral to mildly positive and we saw, as I say, quite a good ISA season on the insurance books of business. We continue to have the normal ebb and flow of business I think as we move into the next three to four months. I'm mildly encouraged but what I've said to people internally is I would expect a slower flow as we engage.

That said I know of one consultant rating that we have won recently for a new product which looks very encouraging for the second half of the year.

So I'm sorry to be the two-handed economist but I don't think I've seen anything which is as yet dramatically negative.

Question 8: Gurjit Kambo, JP Morgan

Hi good morning. Just in terms of your strategic partners, Phoenix, John Hancock, Sumitomo etc. what have been the discussions with those partners and has there been any significant change in flows since the deal was announced?

Answer: Keith Skeoch

There have been no significant switches in flows with the strategic partners since the deal was announced and as you would imagine we're having conversations. I saw Sumitomo two weeks ago in Japan. The relationship is very cordial. Actually after this call I'm flying out to Boston for a long-planned meeting with John Hancock.

Certainly with Hancock one of the things that's quite interesting is the broadened suite of product that we have which may be available to deploy over the longer haul on the John Hancock platform.

So conversations as you would guess are ongoing and we will keep our strategic partners as informed of what we're doing on the merger as we will the market.

Closing comments: Keith Skeoch

First of all can I thank you all for coming on the call at such short notice. We really appreciate it. Thank you to everybody also for your questions. Obviously there's a lot to digest and I know that the IR team are standing by to help with any more detailed questions that people may have but again from me thank you very, very much and I hope you all have a good day.