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Presentation

Operator
Welcome to the Standard Life and Aberdeen Asset Management Update Call on recommended all-share merger. The speakers are Keith Skeoch, the CEO of Standard Life plc and Martin Gilbert, the CEO of Aberdeen Asset Management plc. I will now hand over to Keith Skeoch. Please begin.

Keith Skeoch
Good morning everyone, and thank you for joining the call this morning. I'm Keith Skeoch, and I'm delighted to be sat here next to Martin Gilbert, the Chief Executive of Aberdeen Asset Management. We want to talk to you this morning about our announcement that we have reached agreement on the terms of a recommended all-share merger between Standard Life and Aberdeen Asset Management.

As you will have seen in the announcement, this is a strategic combination of the two organisations, which will create one of the largest active managers in the world with 660 billion of pro forma assets under administration. The combination of our businesses will create significant value and continued sustainable returns for shareholders. The scale of the combined group's financial strength will allow further investment for growth, innovation and drive greater operational efficiency, with approximately 200 million of cost synergies expected within three years. We will benefit from enhanced scale, providing greater diversification, a key strategic objective, while focusing on cost discipline and efficiency. Martin, over to you.

Martin Gilbert
Thanks Keith. Well, firstly, both Aberdeen and Standard Life are true active managers, and as Keith stated, this merger will create one of the largest active investment managers, offering some of the most sophisticated solutions globally, enabling us to meet the evolving needs of a wider client base. Additionally, both our companies have highly complementary investment capabilities and philosophies. Together we have leading institutional and wholesale distribution franchises, market-leading platforms and access to long-standing strategic partnerships globally.

I think we both believe that this will allow us to capitalise on new sources of client demand globally, in the future. Both businesses have strong brands, and by combining them we can effectively expand our global distribution reach, with increased proximity to clients. Finally, with complimentary cultures and values, we believe our businesses will continue to see successful growth once again. And I'm going to hand back to Keith, just to give some more points.

Keith Skeoch
Thanks Martin. So, those are the benefits we've outlined today, and they are all, of course, subject to regulatory and shareholder approval. And we would hope to complete the transaction in the third quarter of 2017. The next steps will be for both Standard Life and Aberdeen to send a number of documents to our respective shareholders, containing further detailed information on the proposed merger. After this, each company will hold a general meeting at which their shareholders will be asked to approve the proposed merger. Both Martin and I and our respective boards strongly believe this transaction is in the best long-term interests of our respective companies and hope that today's announcement is just the beginning of a new and exciting phase for both businesses.

With that, I'd like to hand back to the operator for questions. But please bear in mind, we are constrained in what we can say, given Takeover Panel Code rules and requirements. With that, I'll hand you back to the operator.

Q&A

Operator
Thank you. Ladies and gentlemen, if you do wish to ask an audio question, please press 01 on your telephone keypad. If you wish to withdraw your question, you may do so by pressing 02 to cancel. Once again, please press 01 to register for a question. There will be a brief pause whilst we register your questions.

Our first question comes from the line of Baptiste Aboulian from Ignites Europe. Please go ahead, your line is now open.

Baptiste Aboulian
Yes, hello, good morning. I've got one question about the merger. You say that the two companies will become one of the largest active asset managers in the world. But there is one important word, 'active'. Right now, there is a huge threat from passive investments. This is clearly a defensive deal. But it doesn't address the passive issue. Will you do anything about that or are you firmly an active company for ever and ever after?

Keith Skeoch
I believe that Aberdeen do have some quant and some passive capability.

Martin Gilbert
Yes, we've got about $75 billion probably of passive assets. And yes, I mean, we're certainly seeing a lot of interest in the smart beta side of our product. So, yes, it's – you know, we're clearly not as big as Vanguard and BlackRock in that area, but we do have the capability. And we see it as a complementary capability to the active, not one as a substitute.

Keith Skeoch
But we should be clear that the real strategic strength in this merger is about active management and what it brings to what's called new active or next generation solutions, which in a market where you're still seeing a lot of volatility, I actually think is going to be an increasing part of client and customer needs. And certainly, the conversations both of us are having around the world are actually by and large about our active capabilities. So, I think that we have a very, very strong future ahead.

Baptiste Aboulian
Thank you.

Operator
Our next question comes from the line of Carolyn Cohn from Reuters. Please go ahead, your line is now open.

Carolyn Cohn
Thank you, good morning. I had a couple of questions. Just on the structure, with the co-CEO structure, it's quite unusual, and one or two of the analysts have been a bit critical about it. Obviously Standard Life's quite a bit bigger than Aberdeen. Aberdeen's got a good share of board directors and a co-CEO there. So, I wonder if you could, sort of, talk a bit about the rationale behind that.

And also, if you have anything that you can say on jobs. One of the analysts this morning is predicting cost savings from staff of 20%. And I'm just trying to find out where the overlapping areas are that you might be cutting jobs. Thank you.

Keith Skeoch
Okay, our focus as far as jobs is concerned is about investing in innovation and growth, and we are focused in on the long-term. We'll have scale to build a global business and drive global growth. And I think both organisations have a track record over the long haul of growing strongly, and that will bring enhanced job growth. Of course, as we put the businesses together, there will be some synergies, but to be honest, what we want to do is talk to our people first.

Martin Gilbert
Yes, just on the co-CEO, I mean look, it's pretty prevalent in financial services to have co-heads of global equities or global distribution or whatever it is. So, it's not unusual in financial services. Obviously, we've seen in the Janus-Henderson deal co-CEOs. I think, what I would say before asking Keith what his thoughts are that – look, we've got complementary skills. You know, Keith comes from a very strong economic background. I come from a, sort of, financial background. We've known each other for 30 years. So, it's not as if we're entering this without an intimate knowledge of each other.

I would say we've been through the tough part of working together, which is negotiating putting these businesses together. There'll be another tough phase while we look at the integration. But following that, I genuinely feel that there is – there's more than enough for both of us to do here in this – in what is going to be this huge combined operation. As I say, the largest active manager in the world, the largest by revenues in Europe. So, we're speaking about a global business here. We've offices in – we're going to have about 50-odd offices around the world. So, as I say, look, there's going to be more than enough for both of us to do.

Keith Skeoch

Yes, let me just add my perspective. I think one of the things that makes us both more excited about the deal is absolutely the scale Martin's talked about. 660 billion assets, clients in 80 countries around the world, there's more than enough for both of us to do. And I think one of the things we've gained confidence in over the last, really four weeks, is when difficult issues have cropped up, whether we're in the same room or whether we're on the room, we've actually cleared it pretty quickly. So, we'd have found out whether we could work together. And as Martin says, we've known each other for a very long time. Those that know us know we're very different. And do you know what? That's why we get on. It's a bit like the deal. We're complementary.

Carolyn Cohn

Thank you.

Operator

Our next question comes from the line of Patrick Hosking from *The Times*. Please go ahead, your line is now open.

Patrick Hosking

Good morning gentlemen. I just wanted to press you a bit more on these jobs. Martin, you were saying on the Today programme that 1,000 jobs, which is one estimate, was grossly exaggerated. You're quite certain it's going to be nothing like 1,000 jobs. There seems to be quite a lot of detail in the statement, and it doesn't seem unreasonable that it should be 1,000 jobs or indeed a lot more. So, I'd love your thoughts on that.

And also, I'm going through the document. I can't see a break fee. Can either side walk away from this?

Martin Gilbert

I think the issue just on the break fee is you can't have a break fee in a merger of – in a nil-premium merger of equals. So, you just can't have it, so. You know, look, no one's – we're not going to walk away from it. So, we've obviously all – we've spoken to our major shareholders. We have their support on Aberdeen's side. And I suspect, Keith has done the same on his side. Yes, look, we're just not going to down the road of job losses, Patrick. I mean, it's – as Keith said, this is about revenue synergies as well. And obviously, there is overlap, but look, we just can't talk about job losses.

Keith Skeoch

Yes, and one of the things we will be very, very focused on, Patrick, will be, you know, the kind of financial discipline that's required to make these deals happen and make sure that we get the real financial benefits coming through to the bottom line. But at the end of the day, I think as we've both indicated, this is a strategic deal. It's a deal for the long-term. It provides a UK and Scottish powerhouse in asset management. And when we're successful, as I'm sure we will be, we'll be generating good long-term growth, and that will generate sustainable increase in jobs and opportunities for our people.

Patrick Hosking

Can I ask just one more question, which is, you go fishing together, was this deal spawned on a river bank somewhere?

Keith Skeoch

No, absolutely not.

Martin Gilbert

Sadly not. No, no, it was just – I tried to bring it up as he was catching a fish, you know, Patrick, just to put him off, but it didn't work, you know.

Keith Skeoch
No, no, no, we're both too well versed.

Martin Gilbert
Anyway, there's no fish in Scotland, anyway.

Keith Skeoch
Yes, yes, and actually believe it or not, we don't talk business when we go fishing.

Operator
Our next question comes from the line of Erikka Askeland from Press and Journal. Please go ahead, your line is now open.

Erikka Askeland
Good morning, Keith and Martin. I'm wondering – you've spoken about a few things that I would have liked to have covered on, which is think is good. But I'm wondering about brand. Standard Life Aberdeen Asset Management, which, you know, gives you a great acronym, or variations thereof. Have you given any thought to that, which is probably going to be an important consideration particularly out in the Far East?

Martin Gilbert
Yes, no, look, I mean, obviously we've given a lot of thought to brand. And if we start with the Life company which is a very, very important part of the group, it's going to remain being called Standard Life. So, that is obviously a huge bit of the combined business. On the asset management side, it's a combination of both names with Aberdeen Standard Life Asset Management, Aberdeen Standard Life Investment Management or Investment Company, or something like that. We obviously haven't agreed that finally. And then just on the holding company, it will be Standard, with Aberdeen somewhere in the name. But that is not agreed on that side. But yes, we have given a lot of thought, but there's still a bit of work to be done. We've got to look into – as you quite rightly say, we've got to just be careful what we call it as well, in case we come up with some acronym that doesn't – so, you've quickly spotted that –

Erikka Askeland
It's fantastic. I can't wait.

Martin Gilbert
Unintentional – yes, yes, well. And we've also got to be very careful in Asia and so on that we don't come up with an acronym that means something in a foreign language, that we haven't thought of. So, there's all sorts of things. But that's generally where it is.

Erikka Askeland
Yes.

Keith Skeoch
So, so, one of the things I think I've learnt over the years is that what's really important here is that names are not brands. Brands are much more powerful. And you need to think about, and you need to do a bit of proper research work, as Martin's been pointing out, on how you create a brand. Because it's the brand and the franchise that connects with our clients. And the one thing the combination will do is it will build an effective global brand for the UK.

Martin Gilbert
Yes, so Erikka, I mean, it's going to have, I mean, just the properties we have, the Ladies Scottish Open, the Scottish Open, the Lions, the Ryder Cup. We've got sailing, Andy Murray. You know look, this is going to – we have the chance to create a really huge brand. And we need a strong brand in the type of businesses we're in, selling to private banks in Switzerland etc. You know, as you know, we sponsor every ski school in Switzerland. So, it's those sort of things that really build the brand. So, look, we're – you can sense we're both very excited about the name and the combined naming and brand, along with the very strong brand that Standard Life obviously has in the insurance market.

Keith Skeoch
Sure.

Erikka Askeland
And then, how long has this been bumbling under? I mean, you know, clearly it wasn't spawned on the river banks, but –

Keith Skeoch
No, no, look, we really got together, I think it was in the first week of January.

Martin Gilbert
Yes.

Keith Skeoch
Which is where serious conversations really began. And we've been focused on the business, the excitement about a combination and the fact that we can build this global, active asset management powerhouse. I don't think fishing's cropped up once until today.

Martin Gilbert
No, he can take me fishing that's –

Erikka Askeland
Yes, I'll take you fishing afterwards, yes. Great, thank you.

Operator
Our next question comes from the line of Russell Lynch from *Evening Standard*. Please go ahead, your line is now open.

Russell Lynch
Morning gents, obviously take the growth story, but this one's for Martin really. I mean, given the, sort of, track record of the Aberdeen share price, given the, sort of, the regularly, sort of, quarterly flows of – outflows from the business over the last few quarters, I mean, really, you had to do this deal, didn't you? I mean, at some point you were going to get swallowed up by someone. Isn't that the case?

Martin Gilbert
No, I don't think so. I mean, look, you don't have to – in fact I spoke to our guys actually this week. I said, 'Look we don't have,' – about a week ago. I said, 'We've got two options here. We can either do this deal or we can carry on ourselves with the strong brand we have, the very strong emerging market franchise we have. And you know, and I'll be slightly critical of myself here, if we wanted to continue, there is a serious opinion out there that emerging markets are about to recover. Now, the ideal would be that they do in this combined company. But no, we didn't have to do the deal. You know, we've no debt. We're carrying 500 million of cash. We still make 300-400 – 300 million a year. So, no, we don't have to, we didn't have to do this deal. We've done this deal because we genuinely believe this combined company will be a better – will be better, that two and two makes five here, not two and two making three. But no, let me be absolutely clear. We had a very, very good future, if we'd wanted as an independent company. And, you know, flows might actually – when flows go positive, as we know in asset management, the gearing effect on the way up is very powerful.

Keith Skeoch
Yes, can I just add. I know it was primarily for Martin, but one thing I'd quite like to pay tribute to. One of the reasons these things – this will work is I think Martin and I both understand that asset management businesses are really people businesses. This will only work if our people come together. So, right full and centre about what we've both been looking to do is to get scale. But also, it's scale that brings opportunity for our people. And actually, you know, the financial benefits are compelling, but it's incredibly important that our people are behind this. And you know, that's why I think, you know, Martin took the time.

Russell Lynch
So, Martin, you weren't getting any, sort of, pressure from your shareholders, sort of, obviously nursing fairly chunky losses over the last 18 months or so, to get on and do a deal and take costs out?

Martin Gilbert
No, no, I mean, no, absolutely not. I mean, you know, I have to pay tribute to Lloyds and Mitsubishi. We have the two most supportive shareholders you could possibly have. Let me be absolutely, clear, there was no pressure from either of them to do this transaction. In fact, quite the reverse; you know, our largest shareholder, Mitsubishi, said, 'We want to make it clear to you, we only want you to do this deal if you want to do this deal.' And, you know, I don't know where you get this, sort of, statement that they're all nursing big losses. I mean, this share price has come from £0.18 in 2004 to – you know, up to 500 and back down a bit. So it depends, as you know, where you buy in the cycle, but –

Russell Lynch
No, no, no, absolutely, I take that point. It was just that, I mean, a few of the analysts have pointed out that, you know, the shares were down 44% since the 2015 highs, that was the point I was trying to make, but…

Martin Gilbert
I wish it was; I wish it was only down 44%. Look, emerging markets peaked in March 2013 and we have been – we've had four years of outflows. But the good thing is we've had four years of making our business more efficient, so, yeah, this combined operation is going to get the benefit of that when we do see emerging markets finally turn. And, as you know, we thought they had turned in the third quarter of 2016, but then we had the election and that's delayed the recovery, so hopefully they'll come back.

Russell Lynch
Thank you.

Operator
Our next question comes from the line of Sarah Jones from Bloomberg. Please go ahead, your line is now open.

Sarah Jones
Good morning. I just had a couple of questions. Just in terms of you said the talks started in January, I want to just get a sense about whose idea was it and what was – what really changed? I mean, Martin, when we've spoken last year you were quite adamant that it was better to remain independent, so I'm wondering what, sort of, changed that plan in January and what was the driving force behind that?

I also – Keith, I wanted to ask, Martin's talked about Aberdeen's shareholders, what about Standard Life? You know, what has been the conversations you've had with them; are they generally supportive, at least your top shareholders?

And lastly, to both of you, I wanted to ask about where the overlays are and where – you know, when two asset managers come together there tends to be outflows, so what are you anticipating? Thank you.

Martin Gilbert
Well, that was – I'm not sure where to start. That –

Sarah Jones
Sorry.

Martin Gilbert
– seems a lot more than two questions.

Sarah Jones
Three, three, Martin, three.

Martin Gilbert
Look, I'll deal with the first one and then let Keith deal with the Standard Life shareholders. Look, we – it was a mutual, I think, decision to discuss it in January. I can't remember, Keith phoned me or I phoned Keith, or we met somewhere and we said, 'Look, we should really sit down.' And it was first week in January –

Sarah Jones
Right.

Martin Gilbert
– and we just worked away at it. So in terms of these deals it's pretty quick. So, do you want to do your – what your shareholders think?

Keith Skeoch
The ones I've talked to are positive and supportive. And, you know –

Sarah Jones
Okay.

Keith Skeoch
– one of the great things we have, Sarah, as you know, is we also have – you know, 50% of our shareholders are retailers, so they're policyholders and in our funds. So, you know, I think, you know, on the merger, there's a moment and a time for these things and I think we both recognised that now was the time. You know, you – there are times when you get these things done and actually, you know, I'm so pleased and so excited that actually, you know, in what's a relatively short period of time, Martin, we have –

Sarah Jones
Yeah.

Keith Skeoch
– covered a lot of ground –

Martin Gilbert
Yeah.

Keith Skeoch
– and got this thing across the line. You shouldn't underestimate – you know, this is a big, complex thing to get done and we've cleared it effectively in a few months.

Sarah Jones
Okay. I guess I want to get a sense about what's changed to really bring about, in the first week of January – what was the driving behind it; was this encroaching competition from passive, as us journos seem to attribute a deal to, or what was it?

Keith Skeoch
The combination. It's the –

Martin Gilbert
Yeah.

Keith Skeoch
– the complementarity of what we do; you know, you're constantly scanning the horizon and you're constantly thinking about, you know, what can you do for your clients, what can you do for your people, what can you do for shareholders? I think that, you know, we've just come through a decade, after the financial crisis, where, you know, you're either a winner and you're getting bigger because you have scale, and you have scale not just in terms of size of assets but the strength in your product suite, or you

are a small boutique offering something small. So, you know, we were both medium-sized asset managers and what we're doing is we've, kind of, recognised mutual strengths, complementarities that will create an asset-management powerhouse.

Martin Gilbert
And the other thing –

Sarah Jones
Okay.

Martin Gilbert
– I think, actually, if you divide it into the components as well, I think it's really interesting: we're going to be a world-class active equity business; we're going to be a world-class solutions business; a very strong alternatives business; we've got two very strong property businesses to combine; and then a world-class fixed income business. So we're going to be competing in five areas, and then, alongside that, we also have a strong passive and – business. So, look, this gives us an ability to play in all the – to give us scale in all those areas; rather than, say, Aberdeen being subscale, shall we say, in solutions –

Keith Skeoch
Yeah.

Sarah Jones
Right.

Martin Gilbert
– it now gives this –

Keith Skeoch
Yeah.

Martin Gilbert
– fantastic combination.

Keith Skeoch
Yeah. So Martin's absolutely right about –

Sarah Jones
Okay.

Keith Skeoch
– the asset classes. The other thing I think that's really important, and you'll see it in the investor deck, this is not an issue that's black and white between active and passive. What the most things this deal will do is we will have complementary suite throughout the risk/return spectrum, and that isn't – that's something that very, very few combinations or houses can do. In that sense, it's strategic; that's why, you know, the combination is very special.

Sarah Jones
Lovely. And just one further comment, please, on outflows or where you expend – you know, where there might be some crossover and you might see outflows?

Keith Skeoch
I'm – I think, under the terms by which we're bound, we cannot talk about anything that might be seen as future guidance, I'm afraid.

Sarah Jones
I see. Thank you very much.

Martin Gilbert
Great, thanks.

Operator
Our next question comes from the line of Laith Khalaf from Hargreaves Lansdown. Please go ahead, your line is now open.

Laith Khalaf
Yeah, good morning. I was wondering if you could, perhaps, expand a bit on where you guys see the two companies complementing each other, both in terms of the product range and also in terms of the distribution, both geographically and by channel: institutional, retail and intermediary, please?

Keith Skeoch
Okay. So let me do the product range and then I'll hand over to Martin. And I think, given our time, this has probably got to be our last question because we do need to go and see our people. In terms of product, it's actually, as I said, throughout the risk/return spectrum. So Aberdeen, in terms of beta, have enhanced index, which is a form of passive. You step one step up the risk/return spectrum and we have fantastic complementary skills in fixed income, with us doing developed markets, Aberdeen doing emerging market debt. We are phenomenally strong in credit. You move a bit further up the risk/return spectrum, we have a good, strong, long-term track record in developed market equities; Aberdeen have phenomenal strength in emerging market equities and Asia that creates a really good global equity franchise, all of which is underpinned by emerging debt.

You then get into property and we also have really – I think, something we shouldn't underplay in this – we have really strong capacity and strength in private markets, so it's right throughout the risk/return spectrum. Geographically, Martin?

Martin Gilbert
Yeah. I mean, we were probably stronger internationally than Standard Life, so we have, as you know, a big footprint in Asia, for example. So I think the opportunity is – when we look at our top 50 clients the overlap is about four, so there's opportunity, again, for marketing to each other's client base with complementary products. So, yeah – no, we're very excited by the combination.

Look, I think, you know, as Keith said, I'm afraid we've got to shoot off to see our people and tell them about the deal, and as Keith said, people are the most important part of it. So I'm going to – I'm just going to have to thank you all for joining the call.

Look, just finish by saying, in summary, the scale of the combined group's financial strength will allow further investment for growth, innovation, and also drive greater operational efficiency. Look, the combination will create significant value for our – both sets of shareholders.

So thank you very much for joining the call and any further questions, I'm sure you can call our respective teams, so thanks very much.

Operator
This now concludes our conference call. Thank you all for attending, you may now disconnect your lines.