Standard Life

2016 half year results

Tuesday 9 August 2016

Keith Skeoch – Chief Executive

Good morning and thank you for coming along today. I hope you will do what I have just done and remember to switch off your mobile phone or blackberry or whatever. I am joined on the platform today by my fellow Executive Directors, Luke Savage our Chief Financial Officer, Paul Matthews the CEO of our UK & Europe Pensions and Savings and Colin Clark, Head of our Global Client Group. We are also joined in the audience by some of our Executive Team, including Rod Paris, our CIO, Barry O'Dwyer who is Head of Workplace and Retail and Raj Singh, our Chief Risk Officer.

There is much to be pleased with in these Interim Results. We delivered good and well diversified growth in what can only be described as a challenging environment. Growth in assets and inflows from a broad range of customers and clients. We continue to grow our global network, increased our stake in HDFC Life. We are building out our presence in the advice and intermediary markets in the UK through 1825 and the acquisition of the Elevate platform. Importantly, we also maintain our financial discipline to deliver growth in fee based revenue, profits and cash flows. All of this allows us to continue our unbroken record of delivering a progressive dividend whilst maintaining a strong capital position.

In my view the first half demonstrates that our strategy to build a world-class investment company is delivering. I will return to talk about markets and what we are doing to accelerate our pace of strategic delivery which will then be followed by Q&A. But first I will hand over to Luke who is going to lead us through our results for the first half of the 2016. Luke.

Luke Savage – Chief Financial Officer

Thank you Keith, and good morning ladies and gentlemen. I am going this morning by a quick look at performance against our simple, and hopefully to many of you by now, our familiar business model.

As you can see we have delivered continued growth in assets under administration, up from £307bn at the year end to £328bn at the half year. As Keith mentioned, that includes good net flows in challenging markets and it is helped by the diversity of the book both in terms of the asset mix and also FX gains at the end of the period.

Moving across you can see fee income which is of course based on average assets under administration and not period end, was up 4% to nearly £800m. And at the same time we continue to reduce our cost to income ratio down 1% to 62%. In combination we increased underlying performance by over £40m, some 14%. Earnings per share by 16% and cash generation by 10%. That has allowed us to increase our dividend by 7.5% to 6.47 pence per share, continuing our unbroken progressive dividend track record and we have done this whilst maintaining a strong Solvency II surplus.

Here are those figures in tabular form. In the top couple of rows you can see that we have continued to drive our fee based revenues which contribute well over 90% of total income. A reminder there, that that is a core component of our business model with little of our revenues coming from traditional spread/risk based insurance activities.

If we turn for a moment to non-operating items, we guided at the end of the year towards a significant reduction in 2016 with the number of one-offs falling away. And recurring non-operating expenses trading down. And you can see that we have delivered on that guidance here with that figure down by nearly £100m.

In terms of a couple of particular line items; we have closed our DB pension scheme to all further contributions with effect from April this year and you can see the last of the associated charges coming through there. And as a reminder we did that from a position of strength with the DB scheme having a surplus up from year end and now in excess of £1bn.

You can see that restructuring is continuing to trend down. Notable in the figures are two items. The integration of Ignis is now substantially complete with a full first year of £50m of synergies coming through in 2017. And it also includes restructuring costs in Germany where post-closure to new guarantee business last year we have been re-shaping the business and will by 2017 have reduced total costs by over 25% versus the run-rate prior to the changes.

So overall, much reduced on last year and I would guide you towards a similar level of restructuring costs in the second half.

Let's now drill into the first pillar of our model in a little more detail, assets and flows. Here you can see over £4bn of net inflows via our growth channels. Reduced outflows on our mature books which are a natural run-off down to £2.9bn this year from £3.6bn last. And towards the right-hand side the market movements which have benefited from the diversity of our AUA both in terms of asset class and currency mix.

Overall we have increased AUA across all four growth channels. That said, the operating environment across our four channels is different, so let me walk you through each of those in a little more detail.

You can see here the flow figures for our Institutional and Wholesale channels and starting with Wholesale. You can see our flows turn negative. Now to give context, the Pridham Survey for the first quarter stated that this has been the worst period for the wholesale markets in 20 years. They are markets where investments decisions are typically made at short notice and are largely sentiment driven. So it is perhaps not surprising given the economic uncertainty and political uncertainty you have seen that investors have been taking risk off the table.

That was in contrast to our Institutional flows where mandates are awarded as a function of long-term investment goals, performance and capabilities. Here flows were strong, and particularly into real estate in terms of asset class, in terms of client diversification, we saw good flows from DB schemes including into ILPS, our Integrated Liability Plus Solution. And as we look forward in Institutional, that pipeline remains strong.

When it comes to Workplace and Retail channels, we have continued to drive strong and resilient net flows of £2.8bn. Now the retail flows are indicative of the strength of our proposition and our platform continues to attract favour with IFAs and we signed up nearly 50 more firms year to date as well as seeing existing IFAs continue to consolidate assets onto our platform. It already has the largest share of flows in the advised platform market. And with the acquisition of the AXA Elevate business, based on current activity, flows would be approximately twice the size of our nearest competitor. Not only does it give us increased flow, but it also enables us to expand our capability from the high end advisory market into the more generalist market.

To give some perspective on that acquisition. The Elevate platform has got around £10bn of assets under administration on it and has been losing close to £20m a year. But once we have integrated it, we expect it to contribute profits close to £20m a year, in part from increasing SLI content on the platform. We expect to complete on the transaction in the coming months and to spend a little under £100m in total on the acquisition, the integration and restructuring which should take around 24 months to complete.

In Workplace, we continue to auto enrol over 200 schemes a month, largely through our Good to Go online capability. Now with those schemes we are now at the small end of the market, but they will earn us an annual scheme admin fee of £1,200 per scheme and over time will grow assets in which we earn fees both in our Pensions and Savings business, as well as around 70% of the assets then being managed by SLI and earning us fees there as well. And that growth in auto enrolment is contributing to the annualised £3bn in regular premiums we now attract into Workplace.

If we turn now to how those asset movements translate into revenue, you can see here we have grown fee revenues through our growth channels by 8% year on year. That 8% growth is despite the impact of the regulatory driven changes to our operating model in Hong Kong, as a result of which reduced fee growth came down by about 2%. But overall we grew fee revenues by an excess of £30m. As for our spread/risk margin, we took advantage of volatility in credit spreads during the period to capture additional yield pickup in the management of the back book and you can see that coming through there at £10m. Now the timing quantum of such opportunities are hard to predict. But we would guide to a further £5-10m over the course of the second half.

In addition to ALM activity, we benefited from an acceleration of cash flows from the heritage with profits book as a result of a change to the scheme of demutualisation driven by the adoption of Solvency II. And you can see £22m coming through there in respect of that.

So if you turn to the third pillar of our model, costs. The cost to income ratio has been reduced by 1% to 62% and whilst absolute costs have increased, in part that is because we are continuing to invest in growth initiatives. Specifically we have been making good progress in the build out of our in-house advisory capability. Keith will come back to the strategic importance of this later, but you can see here £7m in expenses related to that build-out. We are very pleased with the progress we are making there and we expect 1825 to reach breakeven during 2017.

Remaining expenses have risen by £26m as a function in part of higher AUA together with continued investment elsewhere across the business. Now by its nature that investment can be somewhat lumpy and I will come back to that when I talk about the Pensions and Savings business in a moment. But would stress that we see strong cost discipline as a key lever in us continuing to drive down the cost to income ratio.

Now I talked about most of the individual items on this slide up to now. So pulling all that together all I would add is that our overall underlying fee based performance has grown by 7% year on year, just showing the strength of our diversified business model in the current difficult environment.

How does that break down by business unit? You can see here we have achieved an improvement across every business line item with the exception of Hong King where I touched on the changes there a moment ago. I will come back to the major line items separately, but whilst we are on this slide, let's touch briefly on Europe Pensions and Savings. For some time we have guided that we expect the contribution from Europe to remain stable. The first half saw Europe benefit from £4m of the £22m Solvency II spread/risk related gain I touched on a moment ago. And allowing for that you can see that Europe is very much on a par with last year and then our guidance in that respect remains unchanged.

Returning to Standard Life Investments. We have grown fees by 7% in contrast to just a 3% increase in expenses. It is a business where costs can and have responded quickly to firm management action given the uncertain conditions we are operating in. And we will continue to maintain tight cost control going forward. Across the bottom in the yellow dots you can see that at one year 29% of assets under management were ahead of benchmark compared to 85% and 84% at the all important 3 and 5 year points.

The performance of GARS has attracted some attention in recent months, so let's put that into context. Whilst performance has been below target, it has nonetheless continued to operate within its designed risk envelope of around a third to a half of the volatility of equities. Up to the mid-year we have seen net inflows into GARS of £0.3bn. There have been strong Institutional net inflows throughout the period offset by outflows in Wholesale for reasons I touched on earlier. That said, even within wholesale, we attracted nearly £1bn of net inflows into Wholesale products other than GARS, including MyFolio which has now broken through £9bn, and is an excellent example of the power of combining distribution with manufacturing as an investment company to drive that resilient growth.

Over to the right-hand side, third box down, you can see there has been no margin erosion with average revenue yield increasing slightly by 1 basis point to 53 basis points whilst in the fourth box down you can see we have increased EBITDA from 40% to 42%.

Now, I have touched on diversity by currency and by client type, but I think it is also worth looking at how product diversity impacts assets and volatility. You can see here in the bars on the left that since the formation of SLI in 1999 through to demutualisation in 2006, to the current time in 2016, you can see how over that period the asset volatility across the fund ranges we offer to our clients has come down as we have grown the range of asset solutions available. That is good for our clients. And as you can see from our results, it is good for our assets under management and our P&L. We are a well diversified business.

Moving onto our Pensions and Savings business, the 8% revenue gain we have delivered from our growth channels has been offset by the phasing of investment spend both in our existing franchise and as I touched on earlier, the building out of our advisory capability. We are maintaining a strong cost discipline and Elevate and 1825 aside, expenses in this business will come back down in the second half to leave full year expenses in line with prior year levels.

Looking to the right hand side, again the third box down, we have been saying for some time that average revenue yield compression was slowing. And here you can see in the period, the margins are unchanged at 59 basis points, although the addition of Elevate will give rise to a shift in mix that sees that number fall slightly going forward.

Let's look now at our capital position, a busy slide, for which I apologise. I know many of you attended the Solvency II session we ran post our year end results presentation at which I went to great lengths to point out a number of key messages and I am going to repeat three of them now.

Firstly, the nature of our business means that Solvency II capital is not a constraint on us, although neither is our regulatory capital surplus a source of readily deployable capital given that it principally consists of VIF. Secondly I don't believe you can take comfort from the reported regulatory solvency ratios. There are just too many anomalies that go into the number to make peer to peer comparisons effective.

Thirdly, what is important, is the absolute quantum of the capital surplus and how stable that is under a range of scenarios. So with that in mind, we present here both the strict regulatory view on the left-hand side as would appear on a regulatory return. And then on the right hand side we provide what we are calling an Investor view which we believe provides additional insight into how well protected our investors really are. It adjusts for gross-ups which do not represent risk to the shareholder and it adjusts for capital freely available to meet losses, but not recognised at the parent level.

You will see that the surplus has fallen by £300m since the year end. Of that around £200m represents the increase in our stake in our Indian associate up from 26% to 35% and the subject of the merger that was disclosed yesterday. And the remaining £100m is the impact of a number of small movements in both resources and requirements. But I think just the £100m underlying movement it demonstrates that not only in first half of 2016 has that regulatory surplus been stable, but we remain confident that the surplus is insensitive to a wide range of market scenarios.

But as I repeatedly said, regulatory capital it not a constraint on us, so what do we measure ourselves against? It has been and it remains cash. It is cash that funds investments, be that organic or inorganic and it is cash that underpins our ability to stand behind our progressive dividend policy.

The fee-based nature of our business provides a strong correlation between fees, IFRS profits and cash generation, which you can see here is up 10% year on year. And that is a conservative measure. We don't take credit for cash generation within our Indian and Chinese joint ventures and associates. But all we recognise from them is the cash dividend streams coming in from India.

If you look to the right of the chart, the chart on the right hand side shows the amount of surplus liquid resources we hold at Group level. These have dipped in the first half as a function of us investing in India as I mentioned a moment ago. But they remain at a level which provides a strong buffer to underpin both our progressive dividend policy as well as giving some optionality to support growth.

So as you can see, we have continued to deliver for our customers, our clients, our business is performing well, growing assets, growing revenues, growing profits and increasing cash generation. That supports our progressive dividend policy whereby we are announcing a dividend of 6.47 pence per share for the half year, a growth of

7.5% year on year and maintaining an unbroken track record of our progressive dividend policy since demutualisation.

And on that positive note, I will hand back to Keith.

Keith Skeoch – Chief Executive
Thanks Luke. We continue to make progress in building a world-class investment company. A company with investments at its heart that focuses on the needs of customers and clients and their trust. A business that people aspire to work for and respect. A business with strong values: teamwork and excellence pointed at delivery. I and my colleagues in the management team have a very clear focus on delivering both growth and efficiency. Together they drive profits and cash flow for shareholders. We continually monitor our progress and after my first year as CEO, and I think a positive outcome in a challenging first half, it is very clear to me that a sharper strategic focus can also up the pace of delivery.

To understand why, let me first say a few words about markets to provide context. I think it is important to note that clouds were already gathering over the global economic outlook before the UK's vote to leave the EU took place. It will take time for the full effects of the vote to be felt and understood. In my view it would be rash to extrapolate from the economic and political noise of the last six weeks. What is clear is that the uncertainty that always accompanies economies, markets and public policy, is likely to remain elevated. Volatility will continue, we'll hit air pockets, we'll have weeks and even months where markets rise quite strongly. That elevated volatility, some of which is directly attributable to the UK vote to leave, but also has more to do with political and economic developments around the rest of the world. What is even clearer is that the recent events reinforce the four big trends shaping the global savings and investments landscape that Standard Life strategy is explicitly designed to take advantage of.

First, focus on fiscal policy in my view to support economic growth is going to increase. So public sector debt and deficits are not going away. That will put even more emphasis on individuals taking responsibility for their financial future. Whether we like it or not, trust in experts and elites is being increasingly challenged and the political debate around the world on inequality inclusion is intensifying.

A greater emphasis, post vote, on international trade will mean not only that UK businesses will need to be world-class to sell abroad, they will also have to compete with world-class firms in their own backyard. So utilising technology and innovation to build efficient and scalable platforms more than ever is going to be a source of competitive advantage.

Finally the slow growth, low inflation, compressed return environment has been extended as markets and economies absorb the enhanced level of uncertainty and volatility.

36 years of experience in financial markets has taught me that during periods of uncertainty and volatility, and there have been quite a few, that I need to remain focused and retain our strategic discipline. Our long-run strategy is explicitly designed to take advantage of these four trends and as they are intensifying it is clear to me that our reaction should be to increase our pace of strategic delivery.

What does that mean in practice? Well it is actually very simple. We need to continue with our targeted investments and our diversification agenda to grow assets, while at the same time focusing and sharpening our focus on operational efficiency. This is what will create the headroom to invest while delivering improving returns for shareholders.

So turning first to diversification. As Luke has pointed out, we are already benefiting from strong long-term relationships with a broad range of clients and customers. In the first half of this year we saw very different mix of net flows compared with the first half of 2015. We benefited from the fact that our diversified client and customer base reacted in different ways to the changing environment.

Institutional appetite increased as large institutions sought to reduce volatility. Wholesale retreated. We saw very little impact in Workplace because people still need and are still contributing to their pensions. We also saw very little impact on intermediaries who continued to consolidate assets. The net result was good and well-diversified growth. Net flows in our growth channels rose by 4% of starting assets with revenue as Luke pointed out up by nearly 8% on the first half of 2015.

We have a strong track record of commercialising innovation to drive diversification and that is central to maintaining the positive momentum we have in asset growth. We spent some time talking about this at the Capital Markets Day and I don't intend to go through the detail today. But simply to point out that while for some, uncertainty and change is a threat, there is no shortage of opportunities for Standard Life. Our targeted investment programme which is already in place means we are well placed to take full advantage of them.

As part of this programme we increased our stake in HDFC Life to 35%. The proposed merger with Max Life will create India's leading private sector life company. As a result we will have valuable strategic stakes in the leading life insurance, and let's not forget asset management companies in India, one of the fastest growing economies in the world.

Driving asset growth and revenue growth across our growth channels in my view is the best strategic means of reducing unit costs. However, particularly in the current economic environment, we also need to focus on the second critical component of our strategy, financial discipline.

In its recent past, Standard Life has a good track record of improving its operational efficiency. Our cost/income ratio has fallen by 7 percentage points since 2012. You are aware we already have programmes in place that will continue to lower unit costs and delivery is on track. The integration of Ignis which has delivered over £50m of annual cost savings and the replatforming of some IT architecture are good examples. The dynamic approach to cost control that underpins financial discipline at Standard Life Investments delivered a further fall in the cost/income ratio and a continued improvement in profitability despite weak markets and slower net flows.

However the build out of 1825 and the acquisition of Elevate in the near term could add more costs than income and slow the downward trajectory in the cost/income ratio.

My very strong view, after my first year as CEO is that we need to sharpen our focus on costs. I am determined to deliver not just well-diversified growth in assets, but also make sure it is accompanied by a world-class cost/income ratio.

To this end, we have put in place three programmes to ensure that the downward trajectory not only continues in the cost/income ratio, but that it falls significantly below current levels.

The first looks at some shorter operational efficiencies deliverable over the course of the next 18 months by utilising the more dynamic approach to cost control and budget planning that has served Standard Life Investments so well over the last 12 years or so. And Luke is leading the delivery of that programme.

The second recognises that as we see benefits from closer co-operation and collaboration across the growth channels, there is scope for significant strategic synergies as we remove areas of duplication. And I have asked Colin Clark and Paul Matthews to accelerate the bringing together of the growth channels to make sure they co-operate and collaborate even closer.

Third, parts of our business, particularly the mature book, require a more focused and transparent management approach to fixed costs if we are to continue to drive that cost/income ratio even lower. So I am announcing an enhanced approach to the management of our mature insured books in order to ensure a greater focus on operational efficiency. I am appointing Barry O'Dwyer to lead a management team that will be tasked with, not just delivering, but making transparent the considerable value in our life insurance businesses. The efficiency and the variability of the cost base needs to and will be improved.

All three programmes will report to me, on a regular basis, and that is going to be co-ordinated through Lan-Tu our new Chief Strategy Officer. Taken together these programmes will improve the operational efficiency of the whole business and should allow us to drive our cost/income ratio down to significantly below current levels and at the same time allow us to continue to invest in our diversification agenda and strengthen the long-term relationships we enjoy throughout our customer and client base.

By doing this, we will ensure we continue to meet changing client and customer needs. We will also ensure we grow our assets, our fee based revenues and our profits. Increasing our pace of strategic delivery will help us to accelerate shifting the shape of Standard Life to a well-diversified, world-class investment company generating sustainable long-term returns for shareholders.

Thank you. Luke, Paul, Colin and I with help from senior colleagues in the room are now available to answer any questions you may have.

Question and Answer Session

Question 1: Oliver Steele, Deutsche Bank

Oliver Steele, Deutsche Bank. So three questions on costs. So the first is I don't think your cost to income ratio came down if you strip out the exceptional spread profits. Certainly if I compare costs to fee income, it went up. And actually I noticed even on your basis it was 63% in both 2014 and 2015. So I suppose question one is really what sort of cost to income ratio are you targeting because you have talked about the targets but you actually have given us no ability to judge you on that?

Second question is when you talk about improving the focus on the mature businesses, are you talking releasing more revenue out of that through management actions or are you talking about absolute reductions in costs?

And then the third question, a nice easy one is, you talked about Ignis cost savings being more than £50m by the time we get into 2017, what is the run rate at the moment?

Answer: Keith Skeoch
Okay, a combination of Luke and I can deal with those questions. I absolutely agree that there are headwinds in the current cost/income ratio and that is why management is so focused on making sure we drive the cost/income ratio lower over the medium term to make sure the implicit operational leverage in this business is delivered. So that is a really big focus for me.

Answer: Luke Savage
I guess the way I would think about that is to say the cost to income ratio is the function of growing earnings and maintaining cost discipline while still being able to invest for the future. And if you think back to the past 2-3 years we have had a number of challenges within that dynamic. So on the political front, we saw the ending of annuities which took out £50-£60m a year of revenue. So the good growth we have achieved has been despite that. We have seen regulatory challenges. I touched on Hong Kong where the change in the regulatory environment there meant we stopped writing recurring premium product. That provided a headwind on income. And we have seen economic challenges. So again I touched on the ending of writing guarantee business in Germany where the ultra low rates rendered the guarantee market unviable and we switched to writing unit linked business.

Despite those challenges we have still delivered good revenue growth. Despite those challenges we have still delivered good investment for the future. And despite those challenges we have still brought the headline rate down by 2-3% over the past 2-3 years. So you are absolutely right, in this particular period, spread/risk has helped, but that is just one of a number of moving parts over the period.

If you take that success that we have achieved in recent times in the 2-3% in 2-3 years, and extrapolate that forwards, recognising that there will no doubt be other challenges that we can't at this point predict. If we extrapolate that out 2-3 years time, it means in the medium term we end up falling below 60% which we believe is a world-class cost to income ratio.

Answer: Keith Skeoch
The main point is making sure that if we benefit from strong asset growth we maintain our financial discipline, we keep our hands on the lever of cost control to make sure that drops through to the bottom line.

Answer: Luke Savage
But those three things of revenues, investment and cost are dynamic and we need to work the three of them together.

On Ignis it is over £50m. We are more or less complete on integration. I don't know off the top of my head how much that implies in terms of the 2016 saving, what I do know is that 2017 will be the first full year of getting the full £50m a year which is what we committed to all along, but I don't have the 2016 impact to hand off the top of my head.

There was one other bit about the mature books, about whether it is around asset liability management or costs? From my perspective I think it is both. I think we already do a good job on asset liability management and we will continue to do that. And as I touched on, we had some opportunities in the first half of the year that perhaps we hadn't expected back at the prelims, but a lot of this is around focus on cost. And recognising that if you run a pensions and savings business as one homogenous business you end up working to the highest common denominator across the business rather than tailoring the way you support it for the different segments within the book. And we think a segmented approach should enable us to drive out further costs.

Further question: Oliver Steele
Are you able to provide any guidance on the asset liability management actions then within that?

Answer: Luke Savage
We have given guidance for the remainder of this year, I think I said a further £5-10m. We will give you guidance at the end of the year as to what we see going forwards. So much of that is a function of market conditions so I would not want to be using my crystal ball at this point.

Question 2: Jon Hocking, Morgan Stanley
Jon Hocking from Morgan Stanley, I have got three questions please. Firstly on the costs. Could you give us some idea of the costs to achieve with the new programme? And then a little bit more colour on the overlap you mention. I guess this is between the life company and SLI as one of the key areas.

Second question. At the Investor Day, Keith you gave a very good sort of run through of what was impacting GARS performance. I think you specifically mentioned the focus on fundamental factors which did not work during the spread widening in February and March time. And I guess sort of Brexit threw a spanner in the works again there. I just wondered if you could comment a bit about how it is tracking versus your expectations, given the market we are in at the moment?

And finally on India. How should we think about this? Is this a financial investment, a strategic investment? As a life company I appreciate you are in a larger entity, but you are down to 24% so how should we think about this going forward? Thank you.

Answer: Keith Skeoch
Let me try and take those in reverse order and end up with Luke back at costs. As far as India is concerned, I think what the events of the last couple of days will do is clearly increase in a very visible fashion the value of that very important strategic stake in India. It is strategic because from my perspective India is one of the most attractive of the emerging markets. It is likely to be one of the fastest growing economies in the world over the next ten years and as well as this very valuable strategic stake in life insurance, don't forget we own 40% of HDFC Asset Management. So we have a very valuable strategic stake today that I think over the next ten years is going to be an increasing source of shareholder value. That will come through not just from the value of the businesses, but also the importance of the strategic partnership. So at the moment if you look at the AMC it mainly distributes surprise, surprise, because it is growing so fast, Indian mutual funds. There will be a point where Indians will want access to global funds and we have the ability to put our funds on their platform. HDFC Life is operationally efficient, they have lots and lots of interesting bits of technology. There is a lot of stuff I think that Barry and his team can learn from, the way in which they operate. So this is very much a strategic partnership in I think one of the most exciting bits of the world.

As far as GARS is concerned, I made the point that actually in sentiment driven markets we really don't always perform so well. I think the vote to leave was another driver for that sentiment. So performance at the first half of the year was not really that much change. Rod, where do you think we are today?

Further answer: Rod Paris, Chief Investment Officer
I think it is fair to say that positioning in what will be a very slow growth environment did not play well in this heightened uncertainty we were facing. And I think the real challenge we had, looking at the first half of this year, is that we did not anticipate nearly 40% of developable markets moving further into negative territory and the amplified impact that had on a lot of asset prices across the board. That being said, we have shifted our positions. We have emphasised more relative value trades now in the portfolio. We have added some carry to the portfolio and I think it is fair to say we are not finding many value arguments for most of the larger asset classes at this point in time.

In terms of performance, although the returns are undoubtedly disappointing, we are happy with the total risk drawdown characteristics and the volatility of the fund, that has done exactly as we said it would on the tin, with about one third of equity volatility over the first half of this year.

I think looking forward, going back to Keith’s comment of a world of compressed returns, a world of small numbers, I think this will be a challenge for traditional asset class investing. I think it actually does speak to what we are trying to achieve with our solutions and our multi-asset categories. Brexit and other political risks, I would argue make short term forecasting very, very difficult. And if anything, I think we believe taking this longer-term view that we do in GARS actually is the right posture in this environment and ultimately I think will serve our investors very well. But it is a difficult environment, but GARS is behaving as we would anticipate. It is an active fund, we sometimes get it wrong.

Answer: Keith Skeoch
And one of the things I think that is quite important and implicit in what Rod is saying is don’t forget the risk characteristics. GARS is in the middle of a risk envelope and I quite like to say to you, please think about this from the perspective as we do of clients. So institutional clients have a very different perspective and they like the risk characteristics and that is why we have seen net inflows into the funds. Wholesale clients tend to be a little bit more sentiment driven, a little bit more focused on short term performance. And that is why we have seen outflows. Actually what goes on will always be a balance of the two.

Answer: Luke Savage
Okay, so coming back to the point about the overlaps between the different business areas. I guess Keith inherited a structural model that was a function of where Standard Life had come from, and when we demutualised there were something like 8 separate business units with a Group function sitting above it. Keith inherited a business which effectively as we were referring to it, an investment company that sees us able to support clients and customers and advise on assets, the administration of assets and the management of assets. Yet we still have had a structure that sees through distinct areas. So that means we have had three HR functions, we have had three finance functions, we have had three technology functions, three communications functions and so on. The expectation is that by bringing those together and thinking of ourselves as one investment company, we ought to be able to deliver more with less. And certainly that is the direction we are heading down in terms of driving out the synergies. Whilst recognising that there are still separate parts to the business. So it is not about losing the identity of the bits of the business, it is about creating common infrastructure support.

In terms of costs to achieve the new programme. In terms of getting the programme up and running, we will be using some external support which is immaterial in the grand scheme of things. We are resourcing it largely from internal resources. So for example the announcement that Keith has just made about Barry's role in the mature business.

In terms of costs that might come out of the back of the programme such as further restructuring costs, it is too early at this point to put a number on that.

Question 3: Andy Hughes, Macquarie

Thanks, Andy Hughes from Macquarie. A couple of questions if I could. First one on India again. I have done the maths and it could be my maths is wrong, but if you take the Max Financial Services current market cap and you pro rata it for your holding in the 24%, you get to 94p a share or so for the Indian life business. Now I understand your comment about it being strategic, but is there a point at which you think, well it is a nice asset, but maybe we can redeploy the capital somewhere else at a higher return?

And I guess a second question on SLI. Helpfully at the Investor Day you gave us a mix of costs between the different distribution costs, operations, management. Could you give us those now for the half year and comment on how they have changed? In particular, the £50m kind of savings from Ignis, presumably they won't be distribution savings, they will be in the other bits of the business?

My third question I guess is about how things have changed in terms of those RFPs. So at the Investor Day you said okay, we have had lots of requests for information on the non-GARS funds. I am just wondering if that really positive signal for the non-GARS funds going forward is still the same today or whether there has been any change as a result of market conditions?

Answer: Keith Skeoch

On India, it is a strategic stake. We have looked to make sure we have had long run exposure to what will be one of I think the fastest growing and most attractive of the emerging markets. So I actually see it as part of our long-term diversification agenda and diversifying the way in which value is created for shareholders.

On costs we will pass to Luke on SLI, but on RFPs why don't we take that first. Colin what are we seeing at the moment?

Answer: Colin Clark, Global Client Director

A continuation of the picture that I outlined in May. Activity levels if you take them on a 3 year basis, considerably up on where we were. 2015, first half of 2015 was a very active period. We are at or just below those sorts of levels completing Q2 this year. What I do think is quite interesting is that we have seen a continuation of the change in mix and I flagged the increased interest in multi-asset outside of GARS so I was talking there about GFS and ARGBS, absolute return government bonds. We have certainly seen continued interest in that. And I think one of the other interesting areas that we have seen an increase in is in equity, our equity franchise. And in particular around the unconstrained area where we have scored some wins during the course of this year. So overall levels at or about just below 2015 levels, substantially up on 3-4 years ago, but just now an interesting change in the mix which I think again is very consistent with that story about product diversification in SLI and supports an optimism about the way that is going to change shape over the next couple of years. The one that I would flag that I am particularly interested in is the arrival on the scene of a good deal of prospecting activity in conversations with clients who have an insurance background. And our whole asset/liability approach if you like which we first started to talk to the market about at the time of the Ignis transaction. Both from the point of view of launching ILPS, Integrated Liability Plus Solutions, for the maturing DB plans or on the other side of the equation, going to talk to insurance companies both to those two product areas are really showing very good signs during the course of 2016. So that is a very full answer, I hope it gives you an impression of the breadth of the capability and the fact we have got interest across the range.

Answer: Luke Savage
On the cost question I don't have the breakdown in the same format we showed on the Investor Day to hand I did not quite pick up on your question, was it the Ignis savings and where they came through or the year to date cost discipline we have shown, so I will answer both questions.

In terms of the Ignis savings it is pretty much across the board. Again when you integrate Ignis into Standard Life Investments, you can rationalise all of the enabling functions as well as to an extent rationalise some of the fund management and so on as you combine funds.

In terms of the 3% growth in SLI costs this year versus much more significant revenue growth, I think that was right from the beginning of the year the SLI management team recognising that it had potential to be a bumpy year, have just been very disciplined in their approach to growth so perhaps doing things like slowing down hiring and so on in order to make sure we have got a firm hand on that cost lever. And Keith you are probably better placed to provide more granularity?

Answer: Keith Skeoch
Yes basically what happened in the first week of the year when it was clear where equity markets were and market revenue, the team there which is used to making sure they manage their cost/income ratio very effectively, started to phase hiring, started to think about the must dos, where we needed to invest as opposed to the nice to have, to make sure we created space. And of course the other thing is at the moment we have also on the people front a pretty efficient remuneration ratio of about 38%. So it isn't just one thing, it really is the ability to make sure that within a given budget you are pulling the lever and reacting to a combination of events and flows.

Further answer: Luke Savage
I think that just reinforces my point about imagine that cost to income ratio as a dynamic activity between revenue growth, investment and tight financial discipline.

Further question: Andy Hughes
So does that mean that cost/ratio for SLI might tick up in the second half as you invest more, given you have said you slowed down in the first half or is it peaking out, the cost centre for SLI?

Answer: Keith Skeoch
I wish that I had such fine control over the levers that I could control the cost/income ratio from week to week, from month to month from quarter to quarter. So the honest answer Andy is, it is a combination of what goes on on the markets. I think what I would likely believe is that you can trust management to make sure we pull the right levers to make sure that that trajectory continues to fall. You know whether that comes through in the second half of the year I think is difficult to forecast. What I can tell you is it will fall in 2017/18 from current levels.

Question 4: Andy Sinclair, Bank of America Merrill Lynch
Thanks, it's Andy Sinclair from Bank of America, Merrill Lynch. I will keep it to two questions on a busy morning. Firstly just on your other line of your P&L which has improved from negative £32m last year to negative £23m this year, it seems a pretty marked improvement. How much of this is due to some of these group improvements and reducing costs that you have talked about and really where does this improvement come from?

Answer: Luke Savage
I think with my cost management hat on Andy, the answer would be not enough. There's activities in there like capital management and things like that, so better returns on surplus funds that we hold at Group. There are a number of small bits and bobs in there, but no significant single item.

Further question: Andy Sinclair
So nothing that would change an underlying run rate?

Answer: Luke Savage
No.

Further question: Andy Sinclair
And second question, you have talked a few times about sharpening focus. Would that possibly include disposal of the annuities business where scale is perhaps not quite what it is in the other parts of the Group?

Answer: Keith Skeoch
I have been very, very clear about that. If we were ever going to do anything, that has got to be for the benefit of shareholders. At this very, very low level of interest rates there is not much value, I think, in moving an annuity book on for shareholders. We have the benefit that our annuity book runs off at the same rate as our transitionals. So actually we can be very, very patient about optionality and how we create value for shareholders. So in the short run in this low interest rate environment, we will be heavily focused through Barry on improving operational efficiency.

Answer: Luke Savage
And that comes back to the point I made earlier about regulatory capital and either being a constraint on us because of the amount of VIF we have, or is it a source of deployable capital.

Question 5: Ravi Tanna, Goldman Sachs
Morning, thank you. Ravi Tanna, Goldman Sachs, I have three questions please. The first one is in relation to India. I suppose I will try a different way. But I was just wondering, the decision to take the stake up to 35% as opposed to the 49% ceiling value. I was wondering how that sits in the context of the new Max Life deal and whether they are subject for change or whether that is set in stone?

The second one was on GARS flows and obviously you have outlined the fact that the Wholesale flows were particularly challenging. I was just wondering given the volatility of Wholesale flows over time, do you have a sense of where the £300-400m a month GARS run rate sits in the context of that change year to date and whether we should continue to expect that going forward?

And thirdly, you have talked about the cost/income excluding 1825 and Elevate and I was just wondering whether we should anticipate quite a lot more investment in either of those going forward? I know you have given some guidance on Elevate, but on 1825 what should we expect please?

Answer: Keith Skeoch
As far as India is concerned, I am not sure I quite understood the point Ravi about the 49% and the 35%. We made an explicit decision to increase our stake to 35% and we executed that. Once that decision had been made, that was a trigger to deliver an IPO of HDFC Life. What happened in the intervening period is this transaction came along which is a quicker and potentially more valuable route to the listing of HDFC Life in the Indian market and therefore was a quicker route to delivering shareholder value or making the value that is available in that life insurance business transparent to the marketplace. So I think that is in essence I think the mechanism.

Answer: Luke Savage
Can I add one thing, which is yes in theory we had the ability to go to 49%. In practice we could never have got there because there is a certain percentage of the stock that would have been out there as share options for employees and so on. So we never could have got as far as 49%. In exchange for giving up the difference between a theoretical 46-47% and the 35% that we did take, that was reflected in the price at which we increased our stake to begin with.

Answer: Keith Skeoch
On GARS flows in terms of guidance. If I knew what was going to happen to equity markets, to sentiment, the nature of the Autumn Statement and the reaction of the Wholesale market, I could give you strong guidance. I think given the volatility in the markets and the sentiment, that is actually quite difficult to do. What I would ask you to note is the difference between the attitude of Institutional investors and Wholesale investors. So a lot will depend on the kind of volatility out there in the marketplace. Things that Colin pointed out in July and August so far have been calmer in the markets.

Answer: Luke Savage
And just on 1825, we announced four acquisitions this year. Those deals are in the process of going through the works. In terms of looking forward to 2017, we would expect revenues and expenses from 1825 to be in single digit millions, with the business breaking even towards the end of 2017.

<u>Question 6: Lance Burbidge, Autonomous</u>
Morning, it's Lance Burbidge from Autonomous. I have got a few questions. Firstly one for Paul, who will be glad to say something I suspect. On Workplace, the redemptions seemed to tick up in the first half. So I just wanted to check there was nothing going on in terms of movement of schemes or something like that?

Secondly on the multi-asset outflows which were £400m in Q2, I wonder if Colin you could split those between GARS and non-GARS in terms of perhaps showing us some momentum in the others in numeric terms?

And then on the mature cost savings, the mature business and Barry's project, are there any long-term outsourcing contracts that need to come up for renewal that prevent you from getting savings early?

Answer: Paul Matthews, CEO UK and Europe Pensions and Savings
So there is nothing untoward going on with Workplace. Workplace predominantly is regular premium, 70% of our inflows are regulars, £1.5bn first half, second half will be

about similar. We have had some customers leaving from pensions freedom, one scheme also transferred away. We didn't also see some of the tick up in single premium transfers that we saw in the first half of 2015. So we had two schemes coming on in 2015. But I would expect to see some of the lumps come through in the next 12 months in addition to the regular premiums which are ticking up quite nicely actually with the auto enrolment as well.

Answer: Colin Clark
The short answer on multi-asset flow is that on other in that Q2 we did see positive flows of about £200m or something like that. And you have got negative on GARS as you mentioned. The picture as a whole for the year I think you also know, we are seeing as I mentioned earlier when you asked the other question, quite a lot of interest in GFS. We have just out of interest managed to register for GFS, Global Focused Solutions fund, in North America, a Cayman Fund and we have also just put it on the John Hancock platform as well. So I think you will be continuing to see a broadening of that multi-asset franchise as well as the additional interest we were seeing in the current market environment from Absolute Return Government Bonds.

Keith Skeoch
Luke, outsourcing contracts?

Answer: Luke Savage
Yes, there are none of significance that I can think of. And we were just having a quick conflab as to what we have out there. One thing we have been doing and continue to do as part of this work is to try and move more of the cost base from fixed to variable. So as the mature book runs down, we are not saddled with fixed costs. An example of that might be we run a lot of our systems on Mainframe. You know Mainframes come with significant licence fees. We have already talked to you about the work we are doing within the UK business to transform the IT off of legacy platforms onto technologies that no longer need the Mainframe and would therefore enable us to help take those costs down over time.

Keith Skeoch
Barry, just checking, I don't think there are any outsourcing contract up for renew, no.

<u>Question 7: Ashik Musaddi, JP Morgan Cazenove</u>
Hi good morning, just three questions, this is Ashik Musaddi from JP Morgan. First question, to your last point about Luke you flagged a move away from fixed to variable cost for the mature books. Are we looking at the indirect cost as well or are we just looking at the cost which is already allocated to the mature book and the way you split the profitability there is another different way? So what I am trying to get here is can indirect costs come down as the mature book goes down? So that is one thing.

Second thing is can you share some thoughts on risk from Scottish referendum? I mean how should we think about that scenario and what are your options? Can we get some sense about that?

And the third thing is, for Colin, can you give us some sense about this cross selling? It looks like you mentioned that 85% of your flows in MyFolio is coming from Life and Pensions and you are trying to do a bit more cross selling between products because you are looking at this as an investment company. So what are the real risks you are worried about? Are you really transparent enough so that FCA will not create a problem in the future or how should we think about that risk? Thank you.

Answer: Luke Savage
Shall I kick off with the cost point. It is an excellent question. In one of the supplementary slides in the deck there is a line item which we call indirect expenses and capital management which shows that a large part of the expense base of our Pensions and Savings business has historically been thought of as a common expense base that spans all of the activity. Part of the focus on thinking about the books separately is just that, trying to pull apart that expense base and saying rather than it being a moderate amount that is spread across everywhere, if you start to pull it apart can we identify ways of chipping away at that as the mature book runs down. So a very good question and the answer is yes.

Further question: Ashik Musaddi
So it is still possible that the indirect expenses can run down a bit?

Answer: Luke Savage
And that is part of the focus of looking at the mature book, yes.

Answer: Keith Skeoch
On the Scottish Referendum, there is obviously going to be a lot of noise. I am not going to get involved in the politics at all. What I would say is look at it through the lens of our clients that drive asset flows. So on the Institutional side, there is no evidence that our clients see it as an issue. And I can tell you that in the week following the vote we had a large mandate fund from an Institutional North American client base. So that I think was a strong sense of discipline. And if you look at those Wholesale outflows, there is no evidence whatsoever that Scottishness is coming into it. In fact I would argue our Wholesale outflows, given that we had such a large market share, were subdued. So I think we are going to get an awful lot of noise, that is inevitable, but actually that is noise that our clients look through to the strength of the relationship and actually what we deliver for them and on that front I would ask you to look back to the Scottish referendum and remember there was a lot of noise, there was no disruption to flows either at Standard Life Investments or indeed to the Retail and Workplace side of Standard Life.

Answer: Colin Clark
I should stress, thanks for the question on MyFolio, 85% of distribution going through the Pensions and Savings business. Let's be clear, the FCA has no issues or questions about the closeness or nature of that relationship, it is not vertically integrated. And I think there are two or three elements as to why and how we need to keep it that way. The first and most important one is that customers are given choice through the MyFolio range in two important respects. As you are probably familiar with the range, there is choice between active management and passive management and SLI does not manufacture any passive management. And secondly, there is choice as to whether the customer wants to choose whole of market involving other funds from other fund management groups or just from SLI so there is choice in that. And the other important element is of course the role of the IFA who is providing the advice in many instances. So I think we are happy on that.

I think the other thing I would flag, 85% seems like a high number. We are during this final quarter of this year starting to launch, the SICAV version of MyFolio specifically targeting the German market and that is an area we think similar characteristics of change. So I suspect you could actually see that 85% number come down quite considerably anyway through growth elsewhere. If I had the opportunity to get on a plane and go and talk to our colleagues in India about it, I would also be very interested.

Question 8: Andy Hughes, Macquarie
A very quick question on annuities. Obviously Aviva put through CMI 15 and I imagine that is not very big for you, but I guess given you have got the further annuity stuff and with profit fund, if you reduced the minimum rate of improvement that would be more significant at the year end. Have you got any idea about, obviously given the minimum rate of improvement at 2% and there is a chance that people might drop that at the year end, given the last 5 years we have had zero improvements?

Answer: Luke Savage
As you are asking the question I am looking to my learned colleagues in the audience who are shaking their heads. They don't have that number to hand, but we can take that off line.

Keith Skeoch
Look can I say, thank you very much for coming along. I am aware it is a busy day. I hope what you have seen in the first half is continued delivery of strategy that really is focused on building a world-class investment company at Standard Life.

Thank you very much and please enjoy the rest of your day.

End