Standard Life Aberdeen
Full year results 2018

Wednesday, 13th March 2019

Introduction

Sir Douglas Flint

Chairman, Standard Life Aberdeen

Welcome

Okay. Good morning and thank you all for joining us. I think – I hope most of you know me. For those who do not, I am Douglas Flint. We are joined by Keith Skeoch, Martin Gilbert and Bill Rattray.

Before I turn over to Keith and the team to discuss the performance last year, I want to touch quickly on the directorate changes that we announced this morning. Regarding those changes, we have been clear for some time that this arrangement would be – we tempered – the question was always, 'What would trigger the change?' What has triggered it is the fact that we made significant progress over the last couple of years so that we are now 75% complete on our integration and in fact, it was Martin who initiated the discussion saying that the co-CEO structure was increasingly becoming a distraction both internally and externally. That led to deliberation.

So, with effect from this morning, Keith is – has become – the sole Chief Executive responsible for leading the businesses as we take the business forward and recognising the critical importance - and I mean that - the critical importance of Martin's client-facing responsibility Martin becomes the Vice Chairman of Standard Life Aberdeen, Chairman of Aberdeen Standard Investments and, of course, he remains an Executive Director on the board.

We have also announced that after an extraordinary and outstanding career of 34 years, Bill is going to retire from the board at the end of May and we are delighted that he is going to be succeeded by Stephanie Bruce who will take on his position as Chief Financial Officer and we are very delighted that Stephanie is going to be joining us.

I am sure there will be questions on this. We would be very happy to take them in due course. But now, let me hand it over to Keith to take you through last year. Keith.

Financial Highlights

Keith Skeoch

Chief Executive, Standard Life Aberdeen

Continuing Operations

Thanks, Douglas. Let me add my welcome to Standard Life Aberdeen's 2018 Finals Presentation.

In a moment, we will hear from Martin on the market, client and customer background that helped shape the results. Bill is going to take us through, as usual, the detailed financial results and then I will come back and update on our strategic progress.

What I thought I would do to kick things off was give a brief overview of the results and how we performed on what we think was one of the most challenging years for the industry in over a decade. Our reaction to that challenging year, as a managing team, was to continue to focus on what we can control to deliver our strategic transformation and achieve our long-run ambition of creating a world-class investment company. And I believe, and the team believes, that today's results do provide evidence of that progress.

Adjusted profit before tax (£m)

Our resilient performance, that left adjusted profit for continuing operations broadly flat, we believe was built on strong foundations.

Focus on financial discipline

First our focus on financial discipline reduced operating expenses by 10%, helped by the fact that our integration programme is 75% complete and ahead of schedule.

Strong Client and Customer Relationships

Second, we continue to build strong relationships with our clients and customers, investment performance is starting to show signs of improvement, and our gross flows in a difficult year actually increased by 4%. We remain ranked in 43 institutional strategies by consultants and we now have access, as a result of the Virgin Money JV, the new relationship with Phoenix, to around 16 million potential retail customers.

Future Investment

Third, we continue to invest in our future through adopting shared values, through innovative fund launches and bolt-on acquisitions to bolster our extensive investment capabilities.

Shareholder Value

Finally, we remain very focused on creating value for our shareholders as we reshape our business to take advantage of the forces that continue to disrupt the industry. To that end, in a very challenging environment, we also completed the transformation in 2018 to a capital-light business, returned over £1.3 billion of capital to shareholders, maintained our dividend and, through the offer for sale in India, continue to reshape our strong balance sheet for the benefit of shareholders.

At that point, I will hand over to Martin.

Market, Client and Customer Background

Martin Gilbert

Vice Chairman and Chairman, Standard Life Aberdeen and Aberdeen Standard Investments

Resilient performance in challenging markets

Thank you, Keith. Let me add my welcome to everyone here as well. I just got a few slides just talking about the state of the industry, a bit of an overview on how we are doing. I think we are pretty well-positioned as you can see from this slide to... I thought the podium was just about to fall down there... That would have been a bad feng shui for the results presentation.

Well positioned to drive sustainable long-term growth

As you can see – and I will show you a slide in a minute - we are a global business with offices all around the world. We are very, very well diversified through our investment capabilities and, again, that will come through in the presentation. We are close to our clients and, again, you will see that when we show you our global coverage as an organisation.

Strong Balance Sheet

I often say we have got the strongest balance sheet of any asset manager, of any investment company in the world. I think the sale of the Indian stake, or part of the sale of the Indian stake, has shown what a great investment it's been by our forefathers and that we managed to get it away at such a tight discount, I think, has shown that there is real value on the balance sheet.

Shareholder Value

And finally, we are very focused on shareholder value, focused on the efficiency of the balance sheet, maximising value for shareholders and we can see that by the buyback we have done. We are halfway through the 750 million of the second phase of the buyback after the billion being returned to shareholders, so very, very focused on shareholder value and hence the importance, I think, of the dividend announcement today, holding the dividend during this period of change in the industry.

Strong platform to compete globally

Global investment coverage and proximity to clients

I promised to show you the strong platform that we have to grow globally. We have even got officers in Ayr, in Reading, in Basingstoke and places like that - where obviously our very, very important platform business and 1825, our advice business, are run out of these offices.

As you can see, 54 operating locations, clients in over 80 countries in the world, and we have 500 specialists working with those clients, and very importantly, some very strong strategic relationships: Mitsubishi, LBG, HDFC, TEDA, Sumitomo Mitsui, Phoenix Group, John Hancock, Manulife, Bosera, Challenger, and finally Virgin Money - just to name a few. These strategic relationships are vital for us in the distribution game of distributing our product.

Challenging year for the industry

With market conditions deteriorating during 2018

Just to put our figures in context, these figures that we had, the gross flow figures, I think, were pretty outstanding in a year where you can see the industry had a difficult year. With quarter 4 2018, you can see the size of the outflows that the industry suffered. Q1 so far has been better than Q4 2018, but it is also going to be a tough start to the year.

But, to a certain extent, this vindicated what Keith and I discussed way back in January 2017 as to why we should merge the businesses. We were absolutely clear that this industry was going to become tougher, and hence, the reason for the merger that we did in 2017.

Seismic shifts creating challenges across our industry

Exacerbated by weak investor sentiment in 2018

As I said, we could see, we predicted, that these sort of things would happen in the industry, and I described it as seismic shifts, seismic challenges to our industry. The first one is the shift to passives.

Shift to passives

Now, I don't need to tell any of you in this room that that is still unrelenting, we are still seeing a massive move to passive. Even though the final quarter of 2018 brought the benefits of active fund management through, we are still going to see that.

Now, if we think, and I will come back to pricing in a minute, but if we think pricing is under pressure in the active space, I can assure you in the passive space it is even more marked. We are seeing downward pressure on fees, but in passive it is going to zero, so it is also seeing huge, huge headwinds.

Growth in 'new active' investing

The other thing we are seeing globally is from our big clients, the sovereign wealth funds, is this growth a new active investing, moving from public markets to private markets. We need to change our business, which is what we have been doing to gain more expertise in private markets - so that when our clients do move from public to private, we can get our share of that.

Need for scale

If you look at where the flows are going globally, you can see the big winners - Partners Group, the Blackstones – the people that are big in this new active investing space. All of that leads, as I have said many times, to the need for scale - and I still think that is going to be the other headwind that we have. Scale is going to be important and those in the middle ground are going to find it tougher and tougher. But, as I've said many times, it is a great place for boutiques. If you are starting again, you would start a boutique and work in the West End able to go for lunch, do your shopping - much better than running, I can assure you, a global, long-only asset manager.

Importance of individual savings

Then finally, I think the other thing we have got, the unsung part of the business, is the Standard Life brand and the importance of individual savings, and these platforms we have, which I will come onto in a minute, are vitally important to us. The access to retail customers and technology is going to be very, very important for us going forward.

Net outflows continued but were concentrated in a small number of strategies

Broad demand for our wider product suite with gross inflows returning to pre-merger levels

Flows, I mean, like other active fund managers, we are seeing outflows. They look astonishingly high figures. But, when you look at them as a percentage of opening AUM, we are doing as well as… we are doing better than some, not as well as we had hoped. I have tried to show here the big outflows of being in what we call our big four blockbuster products, as you can see here. The rest of the business is doing okay.

Gross inflows

As I say, the gross flows have been very encouraging and we are very hopeful of the relationship with Phoenix. We do feel that over the long-term that is going to be a great deal for us. And continued growth in Wrap and Elevate there with about £4.2bn of net flows which are very, very encouraging.

Just my final slide, I said that the unsung sort of bit of the business was Standard Life, that fantastic UK savings brand, and you can see here how important that is to us as a business. Even in these tough years – and they also suffered in Q4 as well - even with a tough quarter like Q4, they grew their business. As you can see, very good profitability, growing nicely, and we expect to see the profitability getting better as the retail platforms get bigger.

That is all I wanted to say, to just give you a rough overview of the industry and I will hand over to my colleague, Mr Bill Rattray; and as usual, I will turn you the first page for you, Bill.

Financial Update

Bill Rattray

Chief Financial Officer, Standard Life Aberdeen

Good morning, everyone. They always make it so easy for me, they have actually covered some of the points on the slide as well, so it is a –

Martin Gilbert: They are starting to call me grey as we know, Bill.

Bill Rattray: Let me just pick up a couple of points here. I mean, you have heard Martin and Keith talked about the industry background and the flows picture, so I won't bore you with that, but really, just picking up on the results of the year.

Financial Highlights

I know the focus is very much on the continuing operations, so we dealt with that on the top half of the table here. 17.8 pence of earnings per share based on the weighted average shares in issue during the year and I will come back to that point in a moment.

We thought it's important also to comment on the adjusted profit from the whole business, because it is easy to forget we did eight months of operating activities of the business we subsequently sold to Phoenix. So, totally separate from anything related to the sale, when we add in the earnings from that business, we see that we had a total adjusted EPS for the year of 22.5 pence, which covers the full-year dividend by a small margin. You can tell I have not been doing this for long enough; I go the wrong direction…

Adjusted Profit before Tax from Continuing Operations

Just looking in a little bit more detail at that, breaking down the recurring numbers, the continuing numbers: revenue, you would not be surprised to know it's down about 10% on last year. We have obviously seen and understood the impact of markets and the impact of the net outflows. But, against that, we have successfully reduced the operating cost by around 10% as well, which is pretty much in line of what we aimed to do. We will touch on it in a little bit more detail in a moment.

So, as you heard Keith say earlier, the adjusted profit from continuing activities broadly unchanged year-on-year. Then if we look at the bottom table in terms of the diluted earnings per share, we have shown the earnings per share there separately for the different component parts of the business. I have already touched on fact that the overall EPS for the year is 22.5. But, the interesting thing is, if you pick up the 17.8 pence from continuing operations, you remember I said that's based on the normal accounting standard of weighted average shares in issue, but the action we've taken during the year to reduce the share count, if we now look at that re-based on a pro-forma basis with the recent share count of just below 2.5bn, that is equivalent to 20.6 pence of earnings on a new basis. So, it's a very different number to build on going forward.

Analysis of Fee Revenue Margins

Martin touched on the fact that the fees are difficult across the industry. We've seen some reduction in blended fee rates, as I think we've flagged was likely before. It's a reduction, but it's not a drastic reduction. I think the Institutional and Wholesale margin of 48 basis points is still pretty credible and certainly within the 45 to 50 bps range that we talked about a year or so ago.

Strategic insurance partners is holding pretty steady. Clearly at a rate that will never be as high as other parts. The retail business, the platform business, is holding very steady and, as you saw on Martin's slide, growing both in terms of revenues and also the number of customers on the platform.

Total Adjusting Items

It's worth touching briefly on the below-the-line items, the adjusting items. I guess, starting from the bottom, clearly, the gain on sale of the business to Phoenix is a pretty significant number this year. Against that, we have some on-going one-off costs of restructuring and the beginning of the separation cost of the business sold to Phoenix.

One point I want to pick out in that 239 is that our previous expectations had been that the separation cost from Phoenix, we would book as we incurred them, but accounting convention requires us to make provision for some of those at the end of 2018. So, we have a provision for effectively future expenditure in there of something like £85m within that number.

The only other things I would pick up, and clearly two items there which are very much accounting related rather than commercial related, you will see that the amortisation and impairment of intangibles has significantly increased on last year. This is the effect of re-basing or re-estimating for accounting purposes, the future revenue streams and the cash streams from the Aberdeen Asset Management business. You would recall that although the transaction was a merger of equals, accounting standards require us to book it as an acquisition. This is really then just an unintended consequence of that, if you like. The important thing from investors' point of view is that there is no impact on distributable reserves. It is dealt with through the merger reserves, which I guess is perhaps the only logical piece of how we have accounted for the merger.

The second piece, also, very much a technical issue buried in the accounting standards. The investment we have in Phoenix which we acquired as part of the consideration for the sale, we have essentially marked that shareholding to market price at the end of December, which was something like 20% below the share price at the date of transaction. Now, the fact that the share price has virtually recovered all of that ground doesn't count for accounting purposes. It is also, it will be clear to you all, it does not include the wider strategic value that we expect to have, or we do have, with the relationship.

And just a final comment on that, the impairment of the Phoenix investment. We are permitted to reverse that impairment as and when the share price recovers. Assuming the share price stays broadly where it is today, you will see a fair chunk of that added back in the first half of ’19.

Cost Schedule

In terms of the costs schedule, Keith mentioned that we’re about 75% of the way through in operational terms of the integration. In terms of the actual cost efficiencies, the synergies to date, the £175m we have taken action on is about 87% of the original target we announced at the time of the acquisition, 70% of the updated target of £250m. We are also well on the way with… we have some additional cost savings that we have achieved in the year as well.

It is not our intention to rebase the number to offer any increased number. You know that we’re very focused on managing cost and the intention is that we just continue to bear down on unnecessary costs and make more efficiencies as we can. So, as a result of that, despite the weakness in the income line, cost income ratio on the continuing business has reduced from 70.6% to 67.9% this year.

The point at the bottom about the £230m of benefits yet to be realised, we are trying to link that into the second bullet. I mean we’ve taken action to achieve £175m of annual savings. The benefit in the P&L during the course of 2018 was £120m, and that breaks down £40m was the benefit in the first half, 80 million in the second half. So, with a bit of a complicated juggling of numbers, the 80 million second half is a £160m annualised rate. But, as we go through 2019, we’ll begin to get the benefit of the additional savings. The £230m that we are mentioning at the bottom is the amount of savings we will eventually achieve which is not reflected in the 2018 numbers. Again, a very simple piece of maths, if we assume taxed at the UK corporation tax rate, using the current number of shares, I mean that in isolation is worth about 7.4 pence of earnings before we reinvest in the business.

Optimising Balance Sheet

The balance sheet we have spent a bit of time reorganising, I mean, as a result of the Phoenix sale we took action to retire £800m of Tier 1 bonds that qualified under Solvency II as capital but don’t qualify under CRD IV. We also took the opportunity to get bondholder agreement to convert the terms of our $750m Tier 2 debt so it does qualify for CRD IV purposes. And, separately this morning, we have announced a tender offer for the remaining £500m of Tier 2 Solvency II debt to try to mop up some of that expensive, expensive debt.

In terms of the regulatory capital position on the right-hand side, we currently have capital resources of £1.7bn and capital requirements, as we have flagged to you before, of around £1.1bn. So, current regularity capital surplus of £0.6bn and that is after having made provision for the dividend of £340-odd million.

One of the strongest Balance Sheets in the Industry

As Martin mentioned earlier, we do have a strong balance sheet, strong capital position. We have around £1.2bn of net cash in the group balance sheet, and that is roughly £2.2bn of gross cash, less the debt we still have in place. We have value in the Phoenix investment and value in the Indian investments and… sorry, just skipping on to the Dividend slide…

Final Dividend Unchanged

That balance sheet is a key support for the dividend. I mean, as you've heard already, we intend to hold the dividend flat at the 2018 level. As we continue the transformation, our expectation is that we will continue to review that and we would expect that to be sustainable as we get to the end of this transformation period.

Distributable reserves as a final point to pick up. I mean, we have something in the order £1.8bn of distributable reserves at parent company level so we don't have any concerns on the balance sheet.

And, with that, I will hand back to Keith.

Strongly Positioned for Long-term Growth

Keith Skeoch

CEO, Standard Life Aberdeen

It is a delicate dance back stage... Thanks, Bill. 2018 may well have been a tough year and, as Martin points out, that market background probably remains in place for some time. But I think, as Bill demonstrated, we are financially resilient as a result of our scale, the strength of our balance sheet, but also, and that is what I want to focus on, the management actions that we are taking to transform the business in the face of all of those headwinds.

As I did at the interims, I am really going to focus on three areas that we would regard as strategically important in my remarks. That is investment performance, investment innovation, that will take us closer to clients, and then I will touch on capital strength. Getting these areas right is incredibly important because it helps us weather the tempestuous environment, but also, at the same time, improve our competitive position in what's really a rapidly-changing savings and investment landscape.

Investment performance

Investment performance of course, lies right at the heart of what we do. And it's pretty clear from 2018, that our disciplined long-term approach was tested by the market environment, because I think 2018's performance can best be described as "mixed", and that challenged a good long-term track record. That good long-term track record, by the way, is exemplified by an article celebrating the 20th anniversary of the ISA in FT Money on Saturday. The two best performing ISA funds from the launch of the ISA wrapper in April 1999, were both from our own stable and, interestingly, both invested in Asia as well, so there's a big difference sometimes between really valuable long-term performance and what goes on in the short run.

I think some of our issues in 2018 were undoubtedly due to the rather unusual return environment we've been operating in, and I will come back to that in a moment. However, it is, I think, vitally important, that we learn the lesson and we challenge ourselves to learn lessons from periods of underperformance. That's the only way we can improve our rigorous and disciplined investment processes, which as I say, have a history of delivering good long-term returns for clients.

Competitive investment performance supporting gross flows

To that end, where our clients have recently suffered underperformance, our investment teams have continued to work on their performance-enhancement plans with their focus on idea generation, idea capture, and implementation, and we are actually starting to see some positive results.

Our integrated research platform is up and running, strengthened by the appointment of heads of research across all asset classes. The Aberdeen Standard Research Institute is not only up and running, but it's produced its first piece of path-breaking research on social capitalism.

We continue to attract new talent, and continue to hire actually from some of the leading names in the industry. We have also implemented a new set of risk analytics, to both enhance delivery within our investment processes, but most importantly, make sure we remain true to our long-term approach. The competitive nature of our performance is underlined by the fact that we remain ranked by institutional investment consultants in 43 strategies and our mutual funds continue to be highly rated by Morningstar.

We are seeing, as I said earlier, some positive impact in 2019, and that's being helped by I think what could turn out to be a more normal return environment. Last year saw the heavy optimism about growth dissipate during the year, and actually culminate with capitulation in the final quarter, which did quite a lot of damage to net flows.

2018 – a year of almost universal negative asset class returns across the market

For me in 2018, there were two standout return themes in the year. The first was the lack of any theme, it was just a bowl of spaghetti there, I couldn't pick out any particularly "return" theme. The second, as I am sure you are aware, is if you look at the 70 asset classes that make up the return universe, 93% delivered a negative return in US dollars. 2018 was actually the worst year in history. No wonder asset managers de-rated, given their dependency on ad valorem fees. Before we all get too gloomy, I think it is also important to point out that 2017 was the best year, in terms of return environment, on record, where only 1% of asset classes actually turned in a negative return.

I think the interesting thing is, if you look at what is going on in 2019, we are definitely beginning to see the return to a more normal return environment. And what is important is the breath of that return environment. So, the combination of the actions we are taking and the improving grain of the market, actually are helping improve our investment performance. That became visible in the areas of difficult equity performance by the end of 2018, particularly in emerging markets. We have also seen improvements across our multi-asset class; GARS, for instance, is up 2.5% year-to-date.

It is always very dangerous to extrapolate a short-run improvement in investment performance, and, to be clear, it is going to take some time for this to filter through to slowing redemptions, let alone, improving net flows. But, from what we know today, the process of restoring our positive and good long-term investment track record is underway.

Positioned to benefit from global demand for 'new active' investment capabilities

'New active' set to capture majority of global AUM and revenue growth 2017-2022

Now, while it's going to take quite a while for investment performance to impact redemptions, the headwinds buffeting the industry are already out there shaping client demands. Passive, as Martin said, may have dominated the last ten years. But, our sense is the real opportunity is out there in what we call "new active"; new actives composed of alternatives, active specialties and solutions.

According to the Boston Consulting Group, if you look out to 2022, new active assets will grow by around 45% or 17 trillion. That's probably slower than passive. But, from our perspective, what is attractive is the size of the potential revenue pool. That revenue pool is expected to grow by about 84 billion with an average revenue yield of just below 48 basis points, so not that different actually from the Institutional and Wholesale revenue yield that Bill showed that we are earning in 2018. That compares a lot better than the zero-to-one that you will likely to get from passive. We believe we have the scale and strategic strength and our capabilities across all those components that make up new active.

Alternatives/Private Markets

Aberdeen Standard Investment's private markets and real estate businesses now total over £70bn, meaning we are a top ten manager globally. We are seeing significant client demand for our key capabilities and growing demand across the spectrum for private market solutions that combine not just the individual asset classes (private equity, infrastructure, real estate, etc.), but we are also seeing quite an increased focus on private markets research and risk modelling that you can only do if you are a skilled scale player. That gives us a sense of competitive advantage.

Solutions

We also have scale and depth in the solution space. £71bn of multi-assets under management shows scale way beyond the £20bn that we now manage in GARS. MyFolio, for instance, has seen its assets under management rise to £14bn. We are one of the leading managers of insurance assets in the UK, something which is reinforced by that strategic partnership with Phoenix.

Active Specialities

We also have £120bn of AUM and funds that we would regard as highly active specialist equities or fixed income. These funds are actually quite a rich source of supply for our gross flows, which, as you have seen, increased to £75bn last year. For example, we saw strong net inflows into smaller company products and specialist equities, as well as the China-Asia equity fund. In the solutions area, there are continued inflows into MyFolio and Parmenion within multi-assets, and we saw £3.6bn of assets transfer across from Phoenix. Within alternatives, we saw good net flows across a range of European real estate funds.

We are also building a powerful set of capabilities in quants and systematic investing, and we have a great track record in what we would call our "better beta" product. That actually deepens the underlying componentry of the solutions we offer to clients. Connecting our investment capabilities with changing client needs plays a very critical role in helping develop our innovation agenda.

ESG factors embedded into all investment decisions

Enhancing the value of active management to invest for a better future

I think one example of the great progress we are making is in ESG. We have long been recognised as a thought leader in terms of stewardship and ESG. We have committed the resources around the world to embed ESG into our investment processes.

We now manage 14 billion of ethical impact and climate-related funds, actually bigger than some specialist managers in this sector, and also have a very good performance track record. That served us very well in winning new business around the world across the asset classes as institutional and retail investors recognise the importance of ESG in delivering sustainable returns.

A track record of innovation in "new active" investment solutions

Increased pace of innovation with 32 new fund launches (22 in 2017) and more to come

To some extent, our gross flows are already benefitting from the changing shape of client needs and demands. However, we have also long recognised that you cannot rest on your laurels and, really, you do need to innovate, which is one of the reasons why we increased the pace of innovation in 2018.

We launched 32 new funds throughout the new active universe. About £63bn of our AUM now sits in funds launched over the last eight years - that's over 10% of total AUM or about 25% of our non-insurance assets. Nor are we standing still - we currently have funds ready to launch and a further 20 in the later stages of development. In order to continue to invest in innovation that will take us even closer to clients, we will lift our current part of seed and co-investment capital from £400m to probably about £600m over the next couple of years.

In the short run, it is clearly essential we tap into the shifting shape of client demands and I believe we are well placed to do so.

Assets are shifting from institutions to individuals

Creating opportunities for those that build close connections to end customers

Over the next ten years, as Martin points out, there is an even more important trend that brings us an even bigger opportunity, and that is the democratisation of financial risk. That is going to re-orientate the industry away from the focus on institutions to individuals. Even as we speak, retail asset growth is increasing at almost twice the rate of institutional assets. Over the next ten years, that gap will get wider still with the shift from DB to DC and the long-term impact of pension freedoms.

In our view, this brings great opportunities for those that built greater connectivity between their investment componentry and the end consumer who is, and actually always was, the ultimate owner of the assets we manage.

Capitalising on Growth in Individual Savings through out UK savings eco-system

Leveraging the strength of our brands, leading platforms and strategic partnerships

We are in a very strong, some might argue unique, position to take advantage of these opportunities. We're the UK's No. 1 non-bank investment brand. We have scale with close to £60bn of AUA on our platforms that serve the retail market across a broad range of segments. Wrap, Elevate, and Parmenion mainly operate in the mediated adviser market. And, as I have said, we continue to believe the majority of assets will continue to be owned by customers that require advice.

So, we continue to work on investing and expanding our advice capabilities by building robo, or Barry will correct me, bionic (actually) advice. This will make advisers a lot more productive, will open up digital advice and bring in new customers that basically have not engaged with the industry.

Market-leading platforms and advice with potential to reach 30% of UK savers

For customers who do not need advice, we are building a very simple intuitive "my investments" offering using the Parmenion platform, through our strategic partnerships with Phoenix and Virgin Money, as I already said. We have access to 16 million customers, around 30% of UK savers – and these customers will now have access to a broad range of offerings throughout the ecosystem from non-advice digital advice to traditional face-to-face advice, either through 1825 or through the 5,000 IFA firms powered by our platform. All of which is aimed at bringing us closer to the end customer and helping them invest for a better future.

Strong Business Well Positioned for Long-term Growth

As we concentrate on delivering all of that, I hope that the message you take away from today is two-fold. First, we are going to be relentless in our focus on operational and strategic delivery. Secondly, as Martin says, we have positioned Standard Life Aberdeen to take advantage of the opportunities that the rapidly-shifting savings and investment landscape creates.

Our strong positioning is clearly underpinned by the depth of the new active investment solutions which are there to meet changing client needs, but also the financial strength that allows us to pursue innovation and investment in our people and technology, so we can deepen our capabilities even further.

Focus on Financial Discipline

The focus on financial discipline that we have demonstrated this year will continue. We've said several times we are already ahead of schedule in delivering the £350m of target efficiencies that are part of our transformation programme. We've maintained our dividend, and we intend to keep it at the 2018 level while we complete transformation and continue to invest in the business.

As we reshape the business, we will also continue to simplify the balance sheet to make sure that it is, not only right size, but appropriate for our business model and shareholders. The We offer today, the tender today, that Bill talked about and this week's Offer for sale in India is an important step in that direction - and in India it is particularly important that we reach the minimum public shareholding in HDFC Life.

It's also probably worth just simply reminding you that, as of last night, we are roughly halfway to returning £750m of capital to shareholders through our buyback programme and remain committed to achieving that target.

For sure, there is still a lot of work to be done to reshape the business as we aim to achieve our long-term ambitions, but we believe that, building on the progress we made in 2018, we have the management focus, the capabilities, the financial strength, to both capitalise on the disruption in our industry and make sure that's for the benefit of our clients, our customers, our people, and, of course, our shareholders.

So, thank you. Sir Douglas, Martin, Bill and I, together with Barry, Campbell and Rod in the front row, will now be delighted to answer any questions you may have.

Q&A

Haley Tam (Citi): Thank you. It is Haley Tam from Citi. Can I ask one question on HDFC Life in the couple on flows, if I can? Firstly, with HDFC Life, can you confirm that once that sale has gone through your surplus could go as close to £1bn, and I just wondered if that's a sustainable level for you, what are your thought processes there?

I guess also I note, I think the maximum sale will take you to just less than 25% free flows, so interesting to think about the sizing and how you thought about that.

In terms of the flows, two questions. First the gross in-flows did increase year-on-year, which is great. It does look as though that was mostly due to strategic insurance partners, so I thought could you give us an update on perhaps how much of that came incrementally from Phoenix and how much of that £7bn you have identified in the past is still out there to gather for Aberdeen Standard Investments?

The final question, just on Wrap and Elevate, I think the flows they did slow half on half, presumably due to market conditions. In terms of that going back up again, should we think about that again just being due to the market, or should I think about the investment platform market study and also the fee cut in Elevate as being relevant here? Thank you.

Keith Skeoch: On HDFC Life, you are right, we will be slightly shy of the MPS (Minimum Public Shareholding). We need to get to our MPS, that's quite an important in terms of, if you do anything else before the MPS, you have to achieve the MPS, so you don't want to leave an overhang in the marketplace. So, our focus is on getting close to the MPS. Bill, in terms of capital?

Bill Rattray: Yes, I mean, you're right. The sale of HDFC Life will add £300-odd-million to the regulatory capital surplus.

Keith Skeoch: Martin, do you want to –

Bill Rattray: So I mean, we're not going to comment in terms of a particular target. I mean, clearly we've said we will retain a robust surplus above the requirement.

Martin Gilbert: Yeah, I mean, let me cover the flows point and take your last question first, and Barry is here, so feel free to speak to him afterwards in more detail. And certainly I think I'll let Campbell sort of answer the question on the flows afterwards from strategic partners, but it did increase. And then on the Standard Life platforms, certainly the first quarter is continuing to be tough because of market conditions - I think, it's fair to say Barry? And the pricing, the repricing of Elevate, I think will give us more, will keep our market share and hopefully increase our market share.

But again, feel free to go into much more detail afterwards with Campbell and Barry.

Bill Rattray: I think on the platforms point, I mean, you got to remember 2017 was probably a bit of an inflated year because of DB pension transfers, which has toned down in 2018.

Keith Skeoch: Yes, on the Phoenix point, we were looking for £7bn. We got £2.5bn in '18, and Campbell I think we're now up to £3.6bn. So that continues to flow through.

Martin Gilbert: Let's do the right-hand side of the room.

David McCann (Numis): Yeah, morning. It's David McCann from Numis. Just firstly on the dividend guidance, going forward that you hold it flat during the transition. I mean, so what would need to change for that guidance to no longer be valid? I'm thinking to the downside here, what would need to kind of get materially worse for that to kind of no longer hold? Secondly, on the retail business, excluding the platforms, can you confirm that is still unprofitable and what the outlook for that is? And then just following up on the HCFC, a point that was made there around £300m going onto surplus capital. So how much of the regulatory capital that's stated already includes HCFC Life and the Phoenix business as of 31st December? Remember when you stated this last time, effectively most of it was excluded. Just an update there would be handy to know. Thank you.

Bill Rattray: I'll deal with that first point first. Yeah, I mean, it's not quite fully excluded from the regulatory capital. It was a very small percentage of each of Phoenix and HDFC joint ventures that we were able to regard as capital for regulatory purposes. So negligible, I guess.

Keith Skeoch: Bill, do you want to do the divi(dend) as well.

Bill Rattray: Yeah, the divi(dend) – I mean, I think in answering that question, I mean, clearly it's difficult to speculate on future market conditions, and I guess, what we said is that we're prepared to maintain the dividend at the 2018 level through the transformation period in the next couple of years. By that stage, we hope and expect that market conditions and the growth of the business will demonstrate it's sustainable. But I think to answer the question in a slightly different way, you've got to think about the distributable reserves. I mentioned I think it's about £1.8bn and reflect… for every penny of lack of cover in the dividend, it's only £25m. So there's a lot of support there over and above the ongoing earnings.

Keith Skeoch: Barry, the retail point?

Barry O'Dwyer: The retail is made up of 18.25 focus on [inaudible] roughly break-even. It's a very small number of millions. [Inaudible].

Anil Sharma (Morgan Stanley): Thank you. Morning. It's Anil Sharma from Morgan Stanley. Just a couple of questions please. On slide 15, you've very helpfully given us to surplus capital and the reg capital. Just to kind of further clarify. Once you do the remaining buyback, once you do the stake sale, and once you do the debt reduction, isn't your surplus going to drop £0.1bn rather than go up? So just want to check that. Secondly, once you've done all the cost saves, is the reg cap requirement I'm assuming going to come down? If you could just tell us well that would be pro-forma for the new cost base? And then just on flows, just wanted to sort of question why, if you look at the gross sales in redemptions, the Emerging Market Aberdeen Fund is one where performance has historically been better than say global or Asia-Pac but it looks like the redemptions have ticked up pretty significant there. So just wondering if something's changed, especially given how strong the kind of emerging-market backdrop has been?

Bill Rattray: Okay, can I deal with the reg cap point first. I mean, I forget exactly which components you spoke about. I mean, certainly HDCF Life, the sale there will benefit the reg cap. The tender for the debt has no impact because we don't include that. As you recall, it's a Solvency II instrument, which doesn't count as regulatory capital here.

The ongoing buyback, yes, will eat into that. But equally I mean, we still have the capacity to consider at some stage a further CRD IV instrument. I mean, if you think about the fact, we may be 75% of the way through optimising the balance sheet from Solvency II to CRD IV.

Martin Gilbert: Yeah, just on the flows, actually the interesting thing is the Asia-Pac performance was the strongest of our equity asset classes last year… the quality funds that we have… so had very, very strong performance, so hence we saw the outflows – I think there are only about £700mn in the fourth quarter whereas, speaking from memory, the emerging markets were about £2.5bn. But again partly hit because… and that wasn't so much performance, because performance did improve for the year. It was more that trend of public to private that we're seeing.

And if we see one of our sovereign wealth fund clients take money out, it'll tend – because we tend only to manage either global for them or Asia on the equity front - it would tend to come out of those mandates.

Bill Rattray: Sorry, I just realised I didn't answer the other part of your question on reg cap about the capital requirement. I agree with your analysis that logically as we go through the transformations, as we complete, the capital requirement should come down. But we've found in the past it's always difficult to predict these sort of things.

Martin Gilbert: The regulator, quite rightly, takes every opportunity to make sure the industry is well-capitalised. That sounds like a great answer doesn't it, the regulator would like that.

[Inaudible].

Martin Gilbert: DPS… Steady on! Good try there! Excellent question!

Hubert Lam (Bank of America): Good morning. It's Hubert Lam from Bank of America. Three questions. Firstly on GARS. We've seen assets under management go down to about £20bn now. Have your outflows last year… performance on a three to five year basis is still relatively mediocre, and it seems like outflows have continued year-to-date. Just wondering where you see GARS going to – when do you expect outflows to stabilise? You're seeing any more – you can either see redemption notices coming in from institutional investors on GARS? And that's the first question. The second question is on fee margin. Your fee margin fell 2 bps year-on-year. I saw that from multi-asset also fell 4 bps year-on-year. Just wondering if we continue to expect the same kind of trajectory going forward in terms of fee margin compression? And the last question is on HDFC Life. So, post the sale, you should have about 25% of HDFC Life still. Obviously, you've mentioned there are still free flow considerations, but excluding that, do you still consider that remaining stake to be non-strategic and how should we think about that going forward?

Keith Skeoch: Let me deal with the one first. We're in the middle of a transaction, so we can't technically comment. On GARS, we've actually seen quite a good improvement in performance. It's early days, but first year-to-date, it's up about 2.5% and there has been more stability I think in the GARS flows year-to-date, and certainly in the fourth quarter. And I think you need to – the thing about the fourth quarter, there were two events. One was the cumulative impacts of underperformance. And of course one of things we did do was Guy announced he was retiring. Aymeric came on board and inevitably I think that would've accelerated.

So GARS is still, in terms of our absolute returns suite, a very important part of what we do. What I would reemphasise is it's £20bn of the £71bn that we manage in multi-assets. So multi-asset is a much broader suite for us these days. Margin, Martin?

Martin Gilbert: Still going to be tough I think. Bill, what do you –

Bill Rattray: Yeah, I think it's still a little bit downward pressure, principally from a mix effect. I mean, the encouraging news we can give you is that the gross new business we're winning is coming in at pretty similar mix to what we've had in the past. So we're not really seen any reduction from that.

Your point on multi-asset - of course, you're right that's where we report the GARS flows... the GARS assets… and that is, we accept, a higher margin than some of the other multi-assets. So that's really the…

Martin Gilbert: But generally the industry is tough on fees. So I mean, not just us, I would say across the board, we're definitely seeing it much more competitive on fee levels than it's been in the past. So, when we're doing RFPs or pitching, definitely lower than it was.

Keith Skeoch: Okay. Let's go along the row. And then we'll go to the back.

Chris Turner (Berenberg): Thank you. It's Chris Turner from Berenberg. The £56m of additional efficiencies that you've found. Can we have some colour on those, please? Are they related to volume and, therefore if your AUM should fall a bit further, we should get further cost savings? And then more kind of strategically on costs. You've got about £350m of cost and efficiency savings you've announced. But, as a percent of AUM, your cost base isn't really falling that much. How do you think about that? Does that mean you think you need to go back to the cost base again or does that mean that you think more about adding scale in other ways? And then, finally, if you can just come back to the comment about the improvement. I think, Keith, you said the improvement in fund performance will take time to flow through to slower redemptions. How do you think about the other side of equation in terms of gross sales? Would that quicker or slower than the redemptions? Is gross sales more sensitive to performance? Thank you.

Keith Skeoch: I think gross sales is improving for two reasons. Investment performance, innovation, and actually it's going to be improving from a third reason, it's get more of Martin's attention, which will be important going forward.

Martin Gilbert: I know there's an article in today's press by Marty Flanagan of Invesco predicting a third of asset managers are going to lose their jobs. So I don't know whether that's true or not, but you can see how tough… when one of the leading CEOs in the industry says that that times are really tough. Exactly the same thing, fee pressure and costs not going down fast enough.

Keith Skeoch: Bill, can answer the detailed question on cost. But yes, scale is part of this. We are building something here that makes sure that we're improving our competitive edge. All of that innovation, our diversified positioning, is about making sure that we can be a winner in the new developing environment. On GARS, Bill?

Bill Rattray: Your question on the £56m, I mean, there will be a small piece of that is related to the value of assets under management, typically the third-party admin costs. But, quite a lot of the £56m is really just attention to detail in terms of cutting fixed costs, which will obviously we'll continue to focus on.

In terms of the £350m as a percentage of AUM, I think we've got to be careful we strike the right balance. I mean, we don't want to be too focused on a particular ratio and end up cutting into the fabric of the business and make it difficult to grow.

Keith Skeoch: Okay. Gordon?

Gordon Aitken (RBC Capital Markets): Thanks. Gordon Aitken from RBC. First question for Sir Douglas, please. You've been in the chair for a short time now. In that short time, what's impressed you and where do you see the opportunity? Second question on the Widows' mandates... so, it's £109bn. Just if you can talk about what you've done on the cost side to allow for that mandate leaving? And finally, Keith, you said you were one of the leading managers of insurance assets in the UK. Insurance companies are increasingly getting into illiquid assets. So… social housing, ground rents, equity-release, mortgages, infrastructure, just what's your capability in those areas? Thanks.

Keith Skeoch: On the last point, very significant in terms of a number of things that we're doing in private credit. We've got what's effectively a factoring mandate, which is out there, adding valuable basis points to insurance mandates. So, we're in a lot of discussions about that that panoply of…

Martin Gilbert: It's just confirming what I said about the sovereign wealth funds and insurance companies. They are moving from public to private, so we're seeing a lot of demand for private credit. You're quite right, student housing, all of these sort of private market capabilities. So we're looking for… and if we were doing any bolt-ons, they would tend to be in that private market area, because that's where the growth is. That's where the growth is.

Keith Skeoch: On the Widows' mandates, any cost saves were baked in, I think, effectively with the £350m transformation programme?

Martin Gilbert: We can't comment on the arbitration at all. We're in the middle of an arbitration process. Douglas?

Sir Douglas Flint: Yeah, thank you for the opportunity.

Martin Gilbert: This with interest…

Sir Douglas Flint: Please sit back and enjoy! Yeah, the first thing to say it's been three months since I took the chair. It feels a lot longer because of the openness of the organisation in terms of welcoming a newcomer who is keen to learn. So what's impressed me, the people, the ambition. The fact that we've got the product and geographic range that I think is very pertinent to the future, particularly our Asian focus, particularly our platforms business, and all of that flowing through to the brand, which I think is extraordinarily strong.

And I guess the final thing to say is that there are things to do, a lot of things to do, but the vast majority of the things we can fix. It's not as if there are things within the organisation that are unfixable, and everyone's focused on that. So I think it's been… actually I've enjoyed it very, very much, and it's the people and the ambition I think that I look to most of all along with the brand. I think it's fantastic.

Keith Skeoch: Andrew?

Andrew Crean (Autonomous): Good morning. It's Andrew John Crean of Autonomous. Three questions if I can. Firstly, what are the Lloyd's revenues and the Lloyd's assets under management last year? Secondly, what are your overall assets under management at the end of February? And thirdly, I notice you're not raising the £350m cost target but, within that, there was about £70m which was kind of efficiency gains, which was basically building the profitability of the platforms and the advice. That doesn't seem to have moved the needle much. I'm just wondering, within your £350m, whether you're actually switching a bit of that to further cost-cutting?

Bill Rattray: Well, I think just on the final question first. No, I mean, we're still very focused on achieving that £350m, plus anything more we do in the way through as I mentioned earlier, the £56m we've achieved during 2018. We're not specifying that as part of the £350m. I think it's perhaps slightly dangerous to put a new target out there because it then shifts the focus in ways that may be unhelpful internally.

Keith Skeoch: Lloyd's AUM and revenues?

Bill Rattray: Lloyd's AUM, it's probably not giving any secrets away... It's pretty much unchanged from what's reported in the December numbers. I mean, they don't tend to move dramatically month-to-month, so the revenues are still pretty much as you see reported of the order of just a little ahead of £100m.

Keith Skeoch: We're not disclosing...

Martin Gilbert: No, we're not – we can't disclose the February…

Gurjit Kambo (JP Morgan): Hi. Gurjit Kambo, JP Morgan. Just two questions. Firstly, you talk a lot about private markets and obviously it's a great industry at the moment. Lots of inflows partners, BlackRock, etc. Your flows have perhaps been a little bit weaker. What's your positioning within private markets? Are you trying to be a big scale player? Are you focusing on being more of a boutique player? And obviously the duration in assets is great if you get them right. What are the sort of closed-in structures that you have. So that's the first question.

Martin Gilbert: Yeah, I mean, it's a mix of all of those. We'd like to be a scale player and a boutique player, if that makes sense, because the capabilities that are being looked for are things like private market, student housing... So we're seeing a lot of it in the… especially in the property business. And the demand is, as you say, for those sort of capabilities: student housing, logistics fund, that sort of thing, the office, the residential. So a lot of thematic sort of stuff as well…

But, the big demand probably from our strategic partners would be definitely private debt probably, they're looking there a lot.

Gurjit Kambo: Are there any funds that you're closing? Because you've opened up lot of funds last year and you're planning for more this year. Any funds you're closing?

Keith Skeoch: Yes, we had a programme of funds consolidation, which is built into the transformation programme and we completed that consolidation programme about six months ahead of schedule. I think there were 17 big funds. But one of the things we did together at the end of last year is we brought a lot of money market offerings together and actually that was a big cost savings. So the plan consolidations that we knew we had to take place are pretty much... well are complete.

Johnny Vo (Goldman Sachs): It's Johnny Vo from Goldman Sachs. I can see there's an increasing focus on individual savings. I guess, from a capabilities perspective, given some your competitors that sort of built out, are there things that you potentially need to backfill to fill out that capability on the individual savings component of your business? The second question is just regards to Elevate. There have been elevated costs within that business. You had previously said that this platform would be profitable by 2019. Is that still the case? And just the final question just regards to the Solvency II debt. Why have you decided to go for a tender offer rather than just wait for the call date, which is in three years' time; and what is the premium of the bonds over par? Thanks.

Keith Skeoch: Bill, why don't you do that, and then Barry we'll come to on the…

Bill Rattray: I mean, we've done the analysis in terms of the first call date – I forget which month but it's 2022, so it's quite a long time to go. And the net present value of taking out some of that debt now at a small premium I think is still very helpful. So, it's really about removing some expensive debt.

The terms that we've offered this morning are to buy it out at gilts plus 150(bps). So I can't recall what… if we were to achieve the whole amount being tendered, that's probably a premium of about £60m to the £500m outstanding.

Keith Skeoch: Barry?

Barry O'Dwyer: Just got things on that. On Elevate, yeah, we gave a profit in 2018, so we delivered on that commitment that we made when we bought the business right in '16. Some of the higher costs in Elevate were as a result of the integration costs and we'll expect those to fall on an ongoing basis.

In terms of the first question in gaps, we don't see that we have actually many gaps because the three platforms that we've got within Wrap, Elevate and Parmenion cover a huge portion of the market and there is very little overlap between the users of the three platforms. So they're an excellent fit. As you probably know, the Standard Life platforms Wrap and Elevate, they're number one for advisor assets, number one for gross flow, number one for net flow, and we think, based on results we've seen earlier this week, that that will continue to be the case for the full year in 2018 as well.

(I suppose) Keith mentioned the fact that we have access to 30% of the retail saver base through the strategic relationship we have with Phoenix and also the new relationship we now have with Virgin Money. So actually, from an access to customers' perspective, we're in a very, very good place. Keith also mentioned some of the work that we're doing on bionic advice because what we want to do is essentially extend our reach into advice customers. We think that the majority of assets will continue (to be) to require advice and so we're working hard obviously empowering the IFA firms out there, empowering 1825, but also building a bionic robo advice capability for the future. So I think we feel that we've a lot of the bases covered.

Keith Skeoch: And that's partly because although this democratisation of financial risk and the retail consumers becoming very popular, this is stuff we've been investing in for a very long time. So, there's a lot of investment that's already gone into the business. Probably got time for a couple more...

Arnaud Giblat (Exane): Good morning. It's Arnaud Giblat from Exane. I've got a couple of quick questions please. Firstly, in the interims, I think you were talking about a medium-term ambition of achieving a cost-to-income ratio of 60%. This seems to have dropped. So I'm wondering if that's still the case or how we should think about that? I mean, clearly costs are under control. Maybe revenues are bit less so, in the flow environment. And, secondly, the £350m cost savings. Should we be thinking that that will be fully achieved in 2019 and we will be therefore we will be looking at 2020 at a full run rate cost base? And a quick question on the platforms. I was wondering, in the medium-term, if you saw an opportunity to integrate all the platforms onto one central technology, one platform? Thanks.

Keith Skeoch: I mean, obviously the cost-income ratio is the product of two things, costs and income. It was almost a perfect storm last year and we're continuing to invest to achieve scale, and looking to how we can grow the business over the medium term. £350m, Bill?

Bill Rattray: I think you're maybe setting us too much of a challenge to achieve the full £350m in 2019. So I mean, we're not changing our prediction, it will be fully in place by the end of 2020.

Steven Haywood (HSBC): Good morning. It's Steven Haywood from HSBC. Just two questions on your… just to clarify, you are tendering the Tier 2 instrument. Any plans to issue a new instrument? Just a clarification on that. And then on your redemptions, you have about £116bn of redemptions in 2018. Can you say what you recapture in your gross inflows? What percentage of that is recaptured and so we get a net-net outflows of the business? Thank you.

Bill Rattray: On the Tier 2 debt, we continue to review options. I mean, as I mentioned earlier, we do have the capacity to issue a bit more Tier 2 if we think the terms are right, but we have no specific intention at the moment. We continue to review it.

Martin Gilbert: Yeah, just on the second point, I think not as much as we would like or as we should, and mainly that's because, unlike some of the bigger players in the world, we tended only to have one capability with what we would call our "big strategic clients". So it wasn't a natural move if they were rebalancing the portfolio and redeeming, say, an active equity portfolio for them to come to us in the past and say, "Look, can you manage this property portfolio or this private credit portfolio?" And that's part of how we're reshaping the business and really trying to get out there that we can manage those capabilities for our big clients.

Obviously with, shall we say, taking Phoenix as an example, yeah, we would tend to recapture a lot there, but not enough in some of our other big strategic clients. And hence you'll see the flows. When I alluded to earlier, they're going to the Partners Groups, the Blackstones, those sort of businesses. So it's… but we're the same as most of the other big active fund managers in that respect. We're no worse than others. We're just not as good as we'd like to be.

Keith Skeoch: Good. I think that's – do you want to sum up?

Martin Gilbert: Yeah, can I just say thank you again and pay tribute to my CFO here, 34 years. When he started, the turnover was £100,000 and we made £109 profit. And you have regularly voted him number one buy side… sell side sorry, I got the wrong... And he also wins buy side. I used to only win sell side. The buy side never trusted me as much as Bill. So… Bill… thank you !

Bill Rattray: It's been a pleasure.

Martin Gilbert: You can now ask him.

Bill Rattray: I'll just like to say his hair was black when he first employed me.

Martin Gilbert: Thank you guys. Thank you.

Keith Skeoch: Thank you very much.

[END OF TRANSCRIPT]