Good morning everyone. I am delighted to introduce Keith Skeoch, the CEO of Standard Life, as our next speaker. Keith is another first time speaker at our conference and Keith was head of Standard Life Investments from 2004 before stepping up as CEO of Standard Life Group in August this year. During his time at Standard Life Investments the business grew from just under £20bn of funds under management, to over £120bn of third party assets. So let’s see what he can do now he has control of the whole Group.

Keith Skeoch  
CEO, Standard Life

Thank you and good morning ladies and gentlemen. Be kind, this is the first time I have done a formal presentation as the CEO of the Standard Life Group.

So what do you need to know about Standard Life? I think one of the things that is incredibly important is that we are a long term organisation and the consistency and coherency of our strategy is very important to us. So right at the heart of everything we do is a simple and consistent business model and we have been working on putting this in place for close to a decade. We aim to grow assets and fee based revenue whilst reducing unit costs and that enables us to drive profits. At the 30th June Group assets under administration was over £300bn, fee based revenue in the first half of the year exceeded £750m and now represents, after the sale of Canada, 95% of our income. Clearly with those kinds of numbers you can see that Standard Life has a scalable platform and it is the scalability of the business and the focus on costs that facilitated a five basis points reduction in our unit costs. That resulted in underlying performance of £299m in the first half of the year. One of the things that is also important to us over the long term is that we optimise the balance sheet and obviously the returns to shareholders. So including the return of £1.75bn to shareholders following the sale of Canada we have pretty much returned to shareholders the equivalent of the market cap of Standard Life at the time of demutualisation.

Let me just take a minute to talk to you about that long term and the long term context. You should really think about Standard Life and its progress in terms of three phases. I am told my Chairman has said to people they are epochs, I do not know how long an epoch is, it is a rather grand term. The first phase for Standard Life which was led by Sir Sandy Crombie was post 2006 and demutualisation. Demutualisation was about raising capital and really in essence, survival. Survival was about getting the backing of shareholders for our capital light fee based revenue model. Sandy did a great job, Standard Life indeed survived. When Sandy left the business he talked about it being a bag of bits. What did he mean about it being a
back of bits? Actually we had as well as asset management and life businesses, we had a mortgage banking business, we had a healthcare business and there was a pretty large component, particularly in Canada of spread/risk as well. So the second phase of the development was about the transformation of the business which was led by David Nish. What David did was pretty effective in disposing of healthcare, the bank and then Canada, but also making sure that he improved the connection between revenues, earnings and dividends. And of course the sale of Canada basically reduced the amount of spread/risk in our profitability and that is why as we stand here today, 95% of our income is associated with either fee based assets under management or fee based assets under administration.

So the next phase of the business which I have been asked to lead is all about growth: growth in assets under management, growth in assets under administration and for Standard Life that means that investments are absolutely at the heart of what we do. You can think about us in essence as delivering across four customer channels. There is institutional which is global and there is wholesale which is international through Standard Life Investments which is also selling in the UK and working with Strategic Partners overseas. In those two channels investment performance and innovation are the main drivers for success. We then have in the UK and European savings businesses in effect businesses which are looking to deliver either in retail or in the workplace. Here it is platforms, propositions, brand that really drive the business. At the moment when I look across the Standard Life Group you can think about those four customer and client channels, but essentially we have three principal businesses.

Standard Life Investments which has a great deal of momentum because, as we will see in a moment, it has great investment performance and track record of innovation. It also has been delivering strong growth in its assets under management and its fee based revenue. We have a very large UK and European savings business which is still going through a period of transformation. As we will see in a moment there are bits of that business, which like Standard Life Investments, have good strong momentum either in the workplace or what we call new retail. It is still coping with the impact of annuities and reducing spread/risk. These two businesses account for the bulk of what we do but we also have life joint ventures in both India and China which are a rich source of opportunity for growth. So one of the common themes through this presentation is over the last ten years we may well have simplified our business, but from my perspective it is also a well-diversified business in terms of where it focuses on getting its revenue from.

Just to reinforce the point, Standard Life has been and it has accelerated the journey over the last five years, transforming into a fast growing fee business. Group assets under administration have more than doubled since 2009, we have fee based assets under administration of £275bn, now 91% of total assets under administration. And £250bn of that is actually now managed by Standard Life Investments.

It is that growth in fee based business that is driving the increase in profit within the Group and you can see from this chart the extent to which fee based income has increased, but also if you look at the bottom set of charts, that when you take out spread/risk from what we talk about as underlying performance, we are delivering relatively strong growth in profitability. And of course a lot of that in the last five or six years has come from strong and consistent growth from the asset management arm.

Here we have a consistent record of growing third party assets. Broadly speaking over the ten years that I have been in charge, the CAGR on third party assets, the CAGR on profits, the CAGR on revenues is round about 15% per annum. We
accelerated that of course in 2014 with the acquisition of Ignis and the transfer of Newton into Standard Life Wealth which is now part of Standard Life Investments.

Quite a lot of that growth is coming from building an increasingly global client base. 70% of net flows are from outside of the UK. About 28% of third party assets under management, and third party assets under management accounts for about 85% of the profitability, come from overseas with a pretty good spread between Europe, North America and, the thing which was most pleasing over the first half of this year, was an increase in assets coming through the Asian offices.

It does mean that we now have clients domiciled in 48 countries and an increasing global network of offices. This looks impressive, please do not all try and go to the Los Angeles office in a hurry, you probably will not get more than three people in the office, it is a Regus office suite. What we do is when we have sufficient clients that require service in local time, we open office to serve and it grows. So these are not big flags that are planted in the sand, they are intended to be very cost efficient.

Of course the bedrock of what Standard Life Investment does is performance, and it is the fact that it can deliver through to meet client needs, performance in not just the appropriate wrapper but also the appropriate bucket. And you can see by asset class we actually do have, despite what they may tell you, a pretty well diversified book of business. It is a book of business which has been built with a very strong performance track record. You can see that on the yellow blobs, 79% of our funds are ahead of benchmark at one year, 95% at three years, 97% at five years. These are the numbers at the end of June, and I can tell you what the number is at the end of August post all that all that volatility in financial markets; at one year 84% of our funds are now ahead of benchmark and 95% and 97% remain the benchmark over three and five years. So actually the focus on change investment philosophy was always designed to deliver across the cycle and actually we continue to show that we have the capability to do that, which is incredible important for client retention. So often in our game, people forget it is not just winning assets but actually keeping assets that helps build a very profitable book of business.

So one of the things that we have been doing at Standard Life Investments to improve the profitability of the book of business is investing and broadening out and deepening our range of investment capabilities. So this shows the range of investment capabilities that were being offered to clients back in 2009. And you can see, with the exception of GARS that it is a pretty plain vanilla traditional spread of business.

If you look at that today, a lot of those gaps have been filled in. It is particularly important to us that in the middle of that risk return space, we have built a lot of outcome orientated solutions, we are putting investment innovation in place and this is all stuff for which we believe we can charge a premium price for a premium product. Two points I think about this slide: one is that all of this stuff just does not happen; this was planned for back in 2009. We tend to think of the investment cycle in asset management as being seven years. Have a good idea, it will take you two years to generate performance, year three if you can convince the consultants and the clients, years three, four, five you see flows, year five you see profitability. By year seven you have a large enough book of business that you are generating enough profit to reinvest elsewhere in the business in terms of technology and profitability. So this is all about improving our product range and what it has done is pushed up the revenue yield at Standard Life Investments to a record 55 basis points. I have to say to you, that for a business which will remain a mixture of both institutional and wholesale, I have my doubts about structurally whether we will get
much beyond 55 basis points as we broaden out. Mix might take it higher in any given year, it may take it lower, but I would not expect a big improvement in the revenue yield, which five or six years ago was closer to 40 basis points. But it just emphasises the importance in this space of performance and innovation because against a background where there is quite profound fee pressure; get your performance right, get the innovation right and meet client needs then you really can charge a premium price for a premium product. So Standard Life Investments is a business with good long term and short term momentum.

Of course our other large business in the Group, is the UK and European savings business which continues to increase its focus and orientation on driving fee based revenue and making sure that what we bring on is capital light. We believe that this business is uniquely, and it is a word we use advisedly, positioned for a period of unprecedented change and growth. There is change ahead of us, but also there has been a degree of change behind us. The market has seen a lot of change over the past decade, change which as a business we have largely anticipated. We recognised that buying new customers with commission was not sustainable and certainly not scalable. We stopped commission payments on new business over ten years ago, well before the introduction of the Retail Distribution Review. Instead we have focused on building the quality of our propositions and, something that has been important to Standard Life over the long term, the quality of our customer service. We have built Wrap into the leading adviser platform, which is attracting more inflows than competitors, whilst being ready for future regulatory change. We have become the largest provider of self-invested personal pensions and a leader in workplace pensions. At the same time we have been reducing our exposure to annuities and created the largest flexible pension drawdown business in the UK. So from our perspective, we believe we really are uniquely positioned during this period of unprecedented change and growth.

It is a business with £107bn of assets under administration. It is the new style propositions that are really building momentum, both in workplace and the retail marketplace where net inflows continued to grow reasonably strongly in the first half of the year. We saw £2.9bn of net inflows which took assets across these platforms to £74bn. Those inflows represented an annualised 8% of assets at the start of the year. So that is strong growth even in the context of the asset management market. We saw regular premiums coming into our workplace pensions reaching £1.4bn and in part that is a reflection of our success in the auto enrolment market. As both minimum contribution rates and salaries increase over time it is also going to provide a pretty secure base to grow net flows from, and as I said earlier our Wrap offering continues to lead the advised platform market with net flows in the period up 17% to £2.1bn and we believe it really is a market leader.

We must not lose sight of the fact that actually, if you look at the right of the slide, you can see that the old book of business is quite stable. There are around 1.4 million customers that we can have a conversation with and that continues to be a good source of fee income.

You can see on this next chart that we continue to make a good transition. Within 2015, broadly 50% of revenue coming from both those new fee proposition businesses in workplace and retail and broadly 50% of the flow coming from the mature fee based business. I would expect the new stuff to pick up over time as the old book runs off.

Why do we expect that to pick up over time? It is demand for our propositions, we believe will continue to grow and it is a result of all that disruption in the marketplace.
We expect a continuation of the strong growth in demand for defined contribution pensions, the vast majority of pensions assets will continue to be invested in defined benefit arrangements, so the scope for growth in defined contribution is large as defined benefit schemes both close and de-risk. That is accelerated by the success of auto enrolment, the phasing in of the minimum pension contributions and the fact that we see more individuals invest in pensions for longer as they opt, and that is a really important point, for flexible pension drawdown instead of fixed annuities.

Retail business will continue to increase as we increase and grow the number of Independent Financial Advisers that are consolidating assets onto our platform. Fundscape have estimated that the UK platform market will more than double to more than £800bn by 2019. Our Wrap platform has a track record of attracting the highest net flows in the market and only last week we picked up four awards at the Aberdeen platform awards, including “Platform of the Year” for the second year running. We are also of course seeing increased demand for advice and guidance. Many have been predicting the demise of financial advisers in the UK as a result of the Retail Distribution Review, whilst we have seen a fall in the number of Independent Financial Advisers who were previously reliant on commission, we have also seen advisers who were first to transition to advice and a fee based model going from strength to strength. The complexity of the UK savings and investment market, taxation and the recent end to compulsory annuitisation has actually increased the need for advice and we have therefore announced plans to build out our own advice business under the banner of 1825, to meet the needs of an increasing number of customers. We aim to deliver a cost effective advice service tailored to the needs and the wealth of customers and clients including face to face advice for high net wealth customers with complex needs, telephony and automated robo-advice for those with simpler needs and guidance for those saving for the first time through for example auto enrolment. So as you can see, we may have a simplified and well diversified business model but I think it is quite an exciting time to be so well positioned in these growth markets.

Outside the UK, we do have growing joint ventures in India and China. We are looking to increase our stake in HDFC Life; we are waiting for regulatory approval to move the stake from 26% to 35% in the Indian life joint venture. Our partner is one of the leading brands in India, it is a leader in a fast growing digital market with over 50% of online sales and it is ranked second for new business sales in the private life market. India I think is at the moment, the jewel in the crown of emerging markets and we have very strong relationships with our partners there.

Standard Life Investments also owns 40% of HDFC Asset Management Company which is the largest mutual funds company in India and it is somewhere where we think could be a big market in the future for us to sell global products. So India is very exciting.

Those are the growth opportunities; I did not want to step off the stage without pointing out that costs are a big focus for us. Over the last several years we have seen a strong reduction in unit costs as a result of the scalability of our platform, the fact that we have simplified our businesses after transformation. I think that means that there actually there is further scope for a reduction in unit costs.

We believe we have a very strong record in generating underlying cash generation which is up by 17%, a real signal that we are moving much more effectively to this fee based business where revenues are dependent on the growth in assets under administration and assets under management.
And of course that has facilitated something we are immensely proud of, the fact that through thick and thin, Standard Life has continued to deliver its progressive dividend policy and we have now delivered as much capital to shareholders as the size of the market cap back in July 2006.

So my role will be to continue to deliver our clear and consistent strategy, meet the investment needs of customers because investments are at the heart of what we do, the asset management side will continue to focus on innovation and strong investment performance, look to continue to expand its global reach, leverage that through best in class distribution in the UK. One of our most successful funds is something called MyFolio. It has gone from nothing to £7bn AUM, £6bn of that flow has come from our UK businesses so connectivity is very important. I am hoping to improve that connectivity by increasing cooperation and collaboration across the whole of Standard Life. So across those customer channels we can deliver performance and innovation, we can deliver best in class administration, very strong advice and world class propositions. If we can do that, and we will maintain the scalability of our platform, we will drive growth and also drive down unit costs.

So for me, we do have a business with strategic momentum which is very capable of delivering further growth and value for shareholders. Thank you.

**Question and answer session**

**Question 1**

*Andrew Sinclair*

You have mentioned a variety of new investment solutions that have come out over the last few years, and one which you have talked about for the future is liability aware investing, could you tell us some more about that and what your thoughts and hopes are for that?

**Answer**

*Keith Skeoch*

So, I think one of the next big sources of assets for asset managers is probably going to be insurance companies, particularly once we get post Solvency II. The big flows for third party fund managers were outsourcing of defined benefit pensions, outsourcing of defined contribution pensions componetry and now I think that, due to regulatory capital amounts of economic capital, there will be a higher degree of outsourcing from insurance companies. It is therefore incredibly important to have propositions which are basically where you build an asset pot that helps mitigate the risks in the liability and starts to think about a benchmark in terms of risk per unit of capital as opposed to just the delivery of the return. Standard Life Investments is well placed to do that, we manage large chunks of money for the Standard Life Group, large chunks of money for Phoenix. It is not just about the proposition and the performance, it is also about your ability to provide service that is Solvency II compliant and I think as a Group we are in a good space. So I think that is something you will hear a lot more about from us over the next couple of years.

**Question 2**

*Read by Andrew Sinclair*

What are your expectations for the pension tax changes that are being discussed at the moment? What are your thoughts, what would you like to see and what would worry you?
One of the points I was making, is that this area of the market has been subject to a great deal of change. One of the things we are focused on with our propositions and platforms is making sure that we can deal with any change that is coming down the track. I think the industry is really not that keen on another tax raid on pensions and as far as I can see that is going away. We sent in our submission yesterday and our view is very much that we should move into territory where the government continues to provide incentives for people to save for retirement. My hope would be that that would be a flat rate and I suspect that would facilitate people moving away from higher rate tax relief so it will be positive for the government in the short run, but the most important thing post these changes we land in an appropriate place where there is a platform, there are incentives in place that can be there for the very long term.

The thing I fear the most is a constantly changing landscape. It would reduce the amount that people are willing to save, it would generate continual complexity in the administration platform. So we will work hard with the industry and with the government to make sure that we have something that is sustainable in place. We have strong rules on how that really should be put in place but to be honest, we will make sure that we can work and deliver for customers in whatever environment we operate in.

My impression is, from talking to officials, is that they have an open mind. They are asking a sensible set of questions, they are laying out some sensible principles and there is not a destination in mind, so it is going to be fascinating to see what comes out once we see the colour of all the submissions which needed to be in by close of play yesterday.

We have a couple of questions coming through on the balance sheet. I think you have about £1.1bn or £1.0bn of cash at the holding company at the moment. Are acquisitions something that you would look at?

Well first of all before I go anywhere near that space, I am very keen to know what my Solvency II balance sheet looks like. We are in conversations with the Prudential Regulatory Authority, everybody is in conversation with the Prudential Regulatory Authority at the moment and those conversations are ongoing so I do not think that the thing has landed quite yet as there are still pretty active debates. One of the things I think the industry is going to have to cope with as far as Solvency II is concerned is that there is going to be a recalibration of all of the ratios. So first thing I want to make sure is that Standard Life is seen as well capitalised. Once we have done that we would have a think about what we might do with either any surplus capital if we have any, or any income that we are generating.

As far as acquisitions are concerned if we do anything it is going to be a bolt-on, it would be something which accelerates our strategic ambition. Anything which is above a material size would also have to be financially accretive. We have a long,
proud track record of delivering a primarily organic growth strategy with a couple of successful bolt-on acquisitions and there is no real change.

**Follow up question from Andrew Sinclair**

On the subject of Solvency II can you give any more colour at this stage and what would your target range be that you would be looking for once you get figures, I realise there is still ongoing debate.

**Answer**

Keith Skeoch

We are not releasing figures because I think those sands are still moving. We have a good idea of what our own absolute ratio looks like, but very little understanding of where that stands relative to the market and I think that when these numbers are released in December then the industry is going to have to look at a recalibration of those ratios. What I can say is that Standard Life is well capitalised and there is nothing in our discussions that will have any impact on our dividend policy etc. We are still talking to the regulator and we are right at the front of the queue. As soon as we know with any certainty, that information will get released to the market.

**Question 4**

*Read by Andrew Sinclair*

We have a couple of questions on leverage targets. Is it too early to be talking about leverage targets? What are your thoughts in that regard?

**Answer**

Keith Skeoch

It is too early to be talking about leverage targets. Obviously as we moved towards a fee based revenue stream we took the opportunity to deleverage a little bit post Canada. If, and we should have, a strong balance sheet, then we want to make sure there is higher connectivity between growth in assets, growth in assets under administration, growth in cash flows, growth in profitability and therefore dividend support. So that is the simple and consistent model. Leverage is not something we are thinking about at the moment.

**Question 5**

*Read by Andrew Sinclair*

How much further can costs go down without increasing assets under management? Is it a case of just effectively looking at a fairly flattish cost base and getting more operational leverage coming through or do you think you can drive costs down further?

**Answer**

Keith Skeoch

I think that if what is behind that questions is, if the driver for the improvement in unit costs going to be operational leverage, I think that is certainly going to be a big chunk of the story. We have simplified the business models, we do have a structure which still reflects the old world. So one of the things I am sitting down and working through with Luke Savage and my senior team at the moment, is what would be an appropriate structure for this simplified but well diversified business? We will come
back I think at the prelims and talk about this but there is probably is some scope for further absolute cost reduction from here as we become a simpler business. We do not necessarily need three Human Resources teams, three Human Resources functions etc, and we are looking at where synergies are available.

**Question 6**
**Read by Andrew Sinclair**

How much of your revenues come from performance fees?

**Answer**
**Keith Skeoch**

Not much at all. Certainly less than 15% and potentially less than 10%. And all of the performance fees tend to be associated with the stable book of life assets. So we get performance fees on a three year rolling basis for outperforming on the Standard Life funds and outperforming on the Phoenix funds. There are no significant performance fees attached to that third party book of business which is driving 85% of profits and 95% of the delta on assets under management.