

Standard Life Aberdeen

Inside Track Series

November 2018

“New active” investment innovation

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Agenda

“New active” investment innovation

- Industry change is accelerating
- Client investment preferences and broader expectations are also shifting
- Disruption provides opportunities – but how should the industry respond?
- Our approach to innovation:
 - Philosophy & process
 - Resources
 - Current and future R&D priorities
 - A source of sustainable competitive advantage

The investments landscape has shifted since the financial crisis

Strong growth in “new active” and passive products

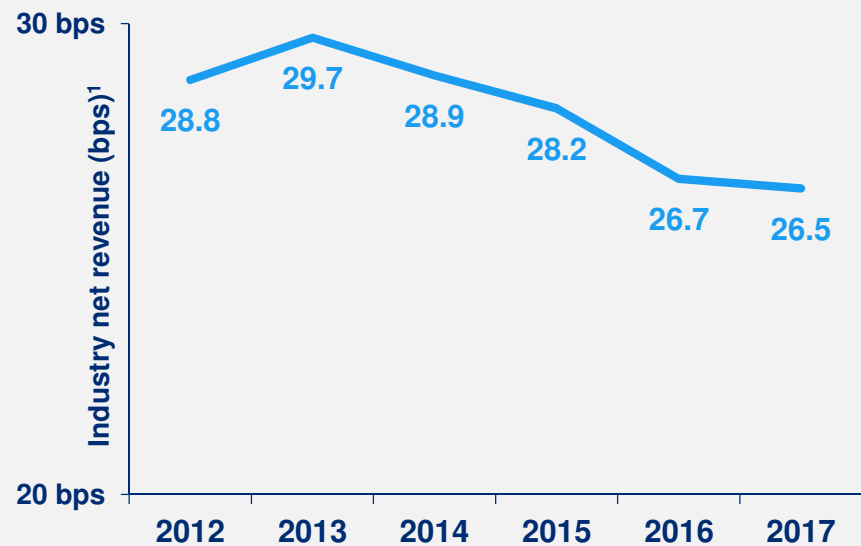


1. Source: BCG, July 2016 and July 2018.

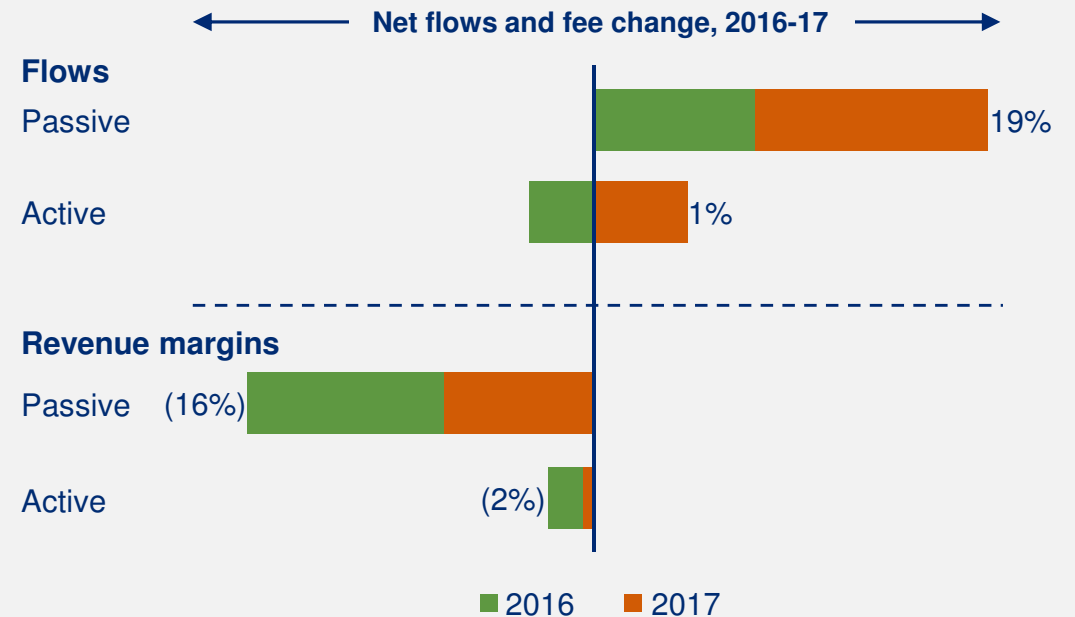
Industry is experiencing fee compression driven by increasing scale and passives

However decline in active revenue margins is slower than in passives

Fee compression driven by increasing scale, growth in passive products and competition ...



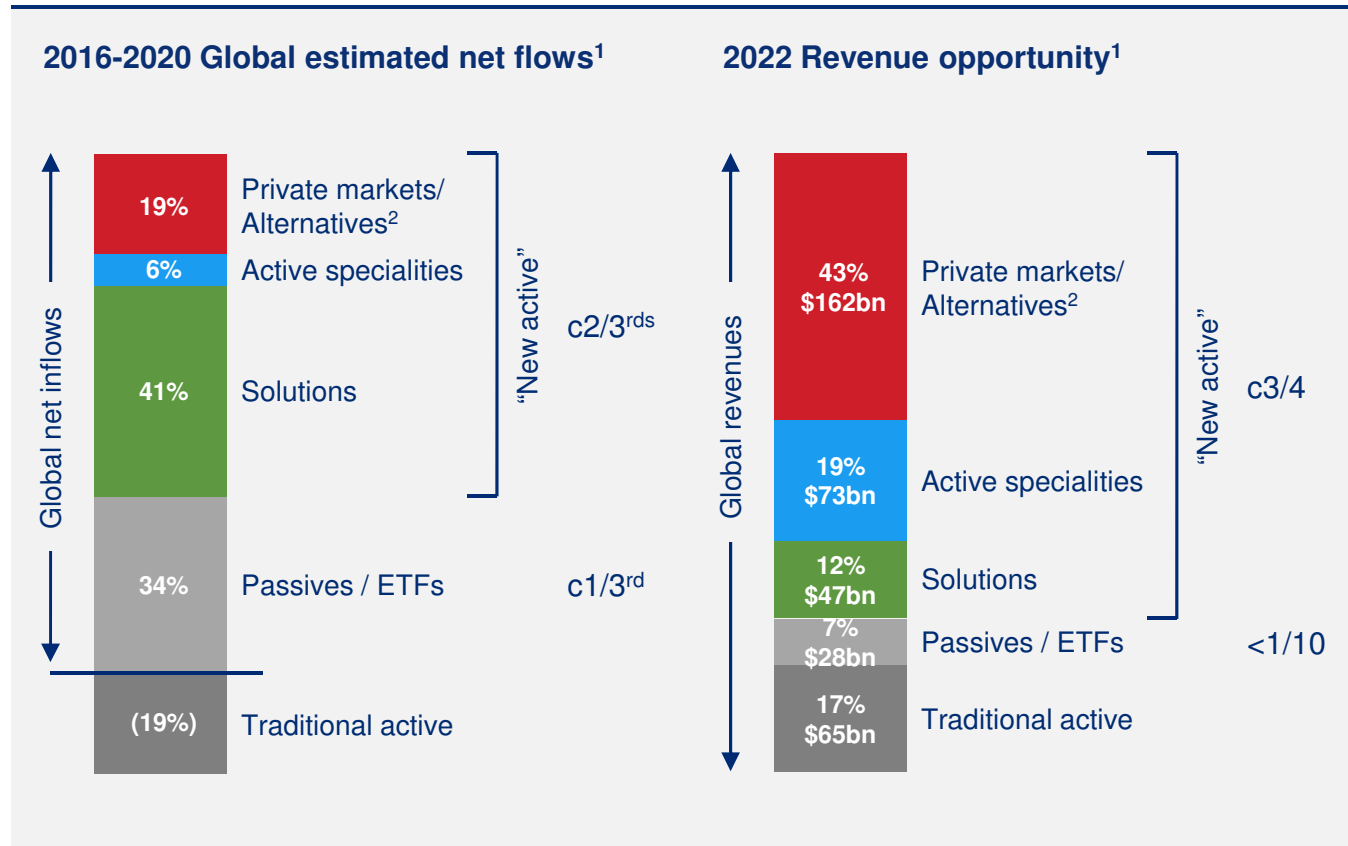
... but decline in active revenue margins is slower than in passives²



1. Source: BCG, July 2018. 2. Source: Oliver Wyman.

Helped by strong growth in higher margin “new active” products

With 3/4 of global revenues from “new active” by 2022



- Significant growth in demand for “new active” products forecast:
 - AUM to grow from \$32tn in 2016 to \$55tn by 2022¹
 - Revenue to grow from \$190tn in 2016 to \$282tn by 2022¹
- “New active” products expected to generate c3/4 of industry revenues by 2022
- Need for a much broader “new active” opportunity set to meet this demand

1. Source: BCG, July 2016, July 2017 and July 2018. Percentages shown are as a proportion of global estimated net inflows into growth categories. 2. Includes hedge funds, private equity, real estate, infrastructure, commodity funds and liquid alternative mutual funds.

“New active” calls for a new approach and a much broader opportunity set
Clients demand for broader and deeper sources of performance and diversification

Traditional active opportunity set

- Public markets
- Core fixed income and equity
- Local focus
- Individual asset class products
- Benchmark driven



“New active” opportunity set

- Public & private markets
- Non-core and specialities
- Global focus
- Multi-asset strategies / Multi-fund solutions
- Outcome focused

The client and customer perspective

Are 'new' benchmarks emerging?

Investment needs

- Accumulation
- Preservation
- Income generation

Investment preferences

- Volatility and risk
- Liquidity
- Passive or active
- Capital efficiency
- Vehicle
- Cost, etc.

Values and beliefs

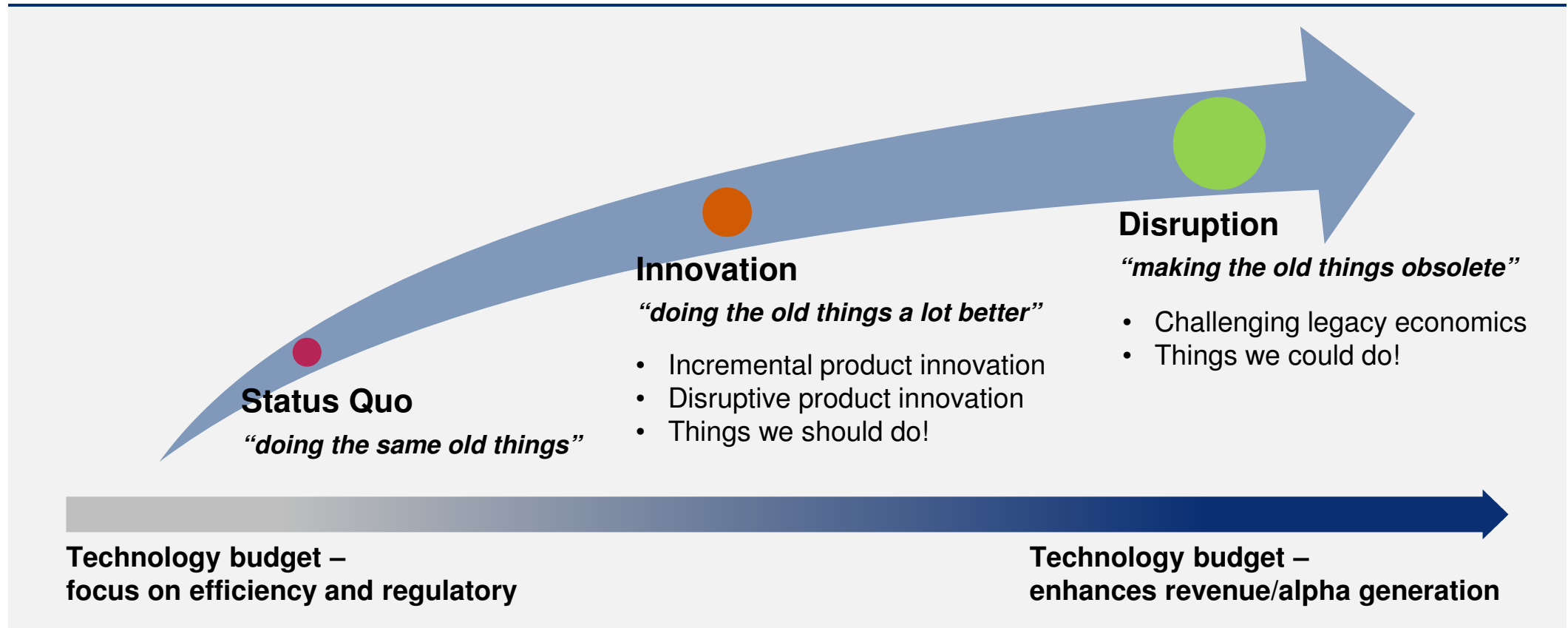
- ESG and Impact
- Thematic
- Physical assets
- Data driven
- Simplicity

Service Expectations

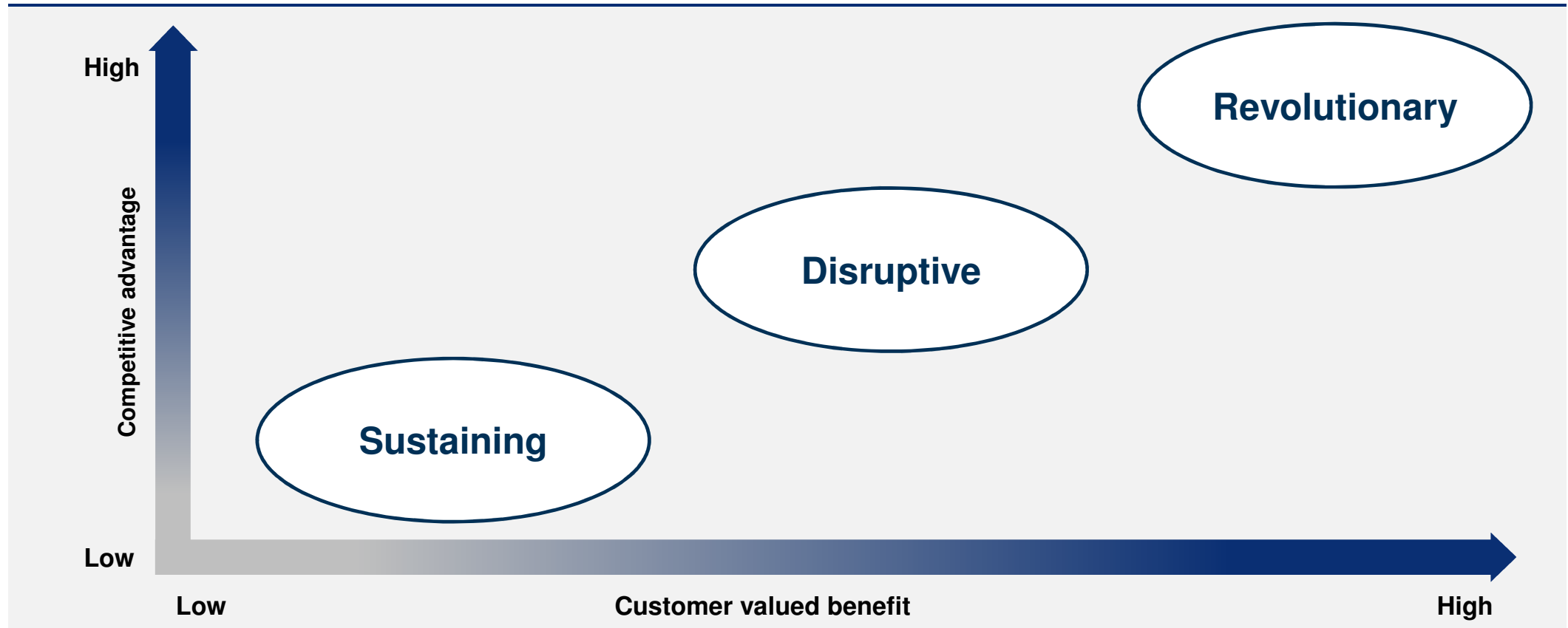
- Targeted/Bespoke
- Frictionless transactions
- On-demand reporting
- Advice, guidance, education
- Pricing transparency

A spectrum of potential responses

Ranging from “doing the same old things” to “making the old things obsolete”



Innovation comes in different shapes and sizes ...
... and it doesn't always have to be revolutionary



Broad and compelling range of capabilities enhanced by our merger

Complementary areas of scale and franchise strength

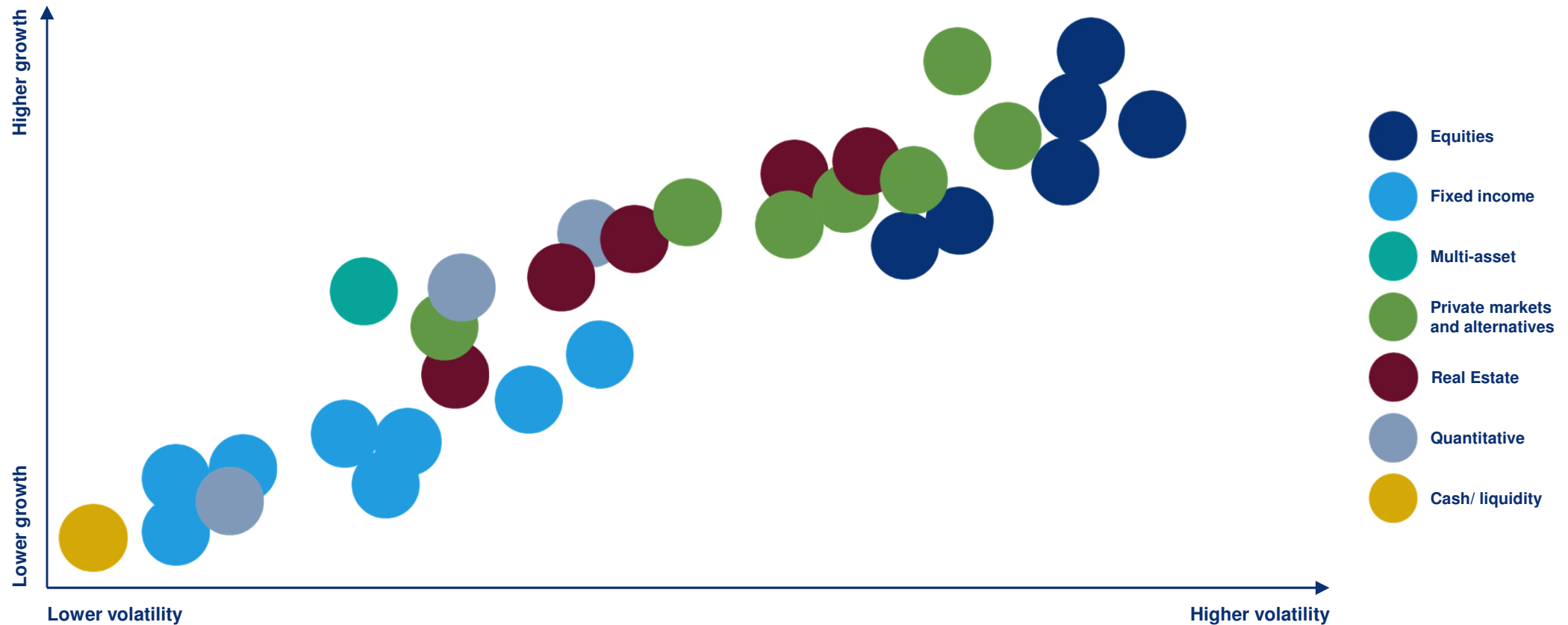
<ul style="list-style-type: none"> Emerging markets Asia Pacific Global 	Equities £144bn 26% of AUM	<ul style="list-style-type: none"> Developed markets Global New active specialities
<ul style="list-style-type: none"> Emerging market debt APAC fixed income Long-dated US credit 	Fixed Income £139bn 25% of AUM	<ul style="list-style-type: none"> Developed market credit Global unconstrained Inflation-linked
<ul style="list-style-type: none"> Diversified growth and income Balance/implemented solutions 	Multi-asset £87bn 16% of AUM	<ul style="list-style-type: none"> Absolute return Liability aware My Folio
<ul style="list-style-type: none"> Private equity (incl. venture) Private debt Hedge fund solutions 	Private markets and Alts £28bn 5% of AUM	<ul style="list-style-type: none"> Private equity Infrastructure equity
<ul style="list-style-type: none"> UK core / core plus European (incl. residential) Funds of funds 	Real estate £39bn 7% of AUM	<ul style="list-style-type: none"> UK core / core plus European value add
<ul style="list-style-type: none"> Smart beta Better beta Passive 	Quantitative £67bn 12% of AUM	<ul style="list-style-type: none"> Systematic macro
<ul style="list-style-type: none"> Instant access 	Cash/liquidity £53bn 9% of AUM	<ul style="list-style-type: none"> Short duration
<ul style="list-style-type: none"> Parmenion 	Platforms and advice¹ £61bn	<ul style="list-style-type: none"> Wrap Elevate 1825

AUM as at 30 June 2018.

1. Assets administered on our platforms that are also managed by Aberdeen Standard Investments are eliminated (£8.2bn) when calculating total assets under management and administration (AUMA). Total AUMA as at 30 June 2018 was £610.1bn.

Evolving the breadth and depth of investment capabilities

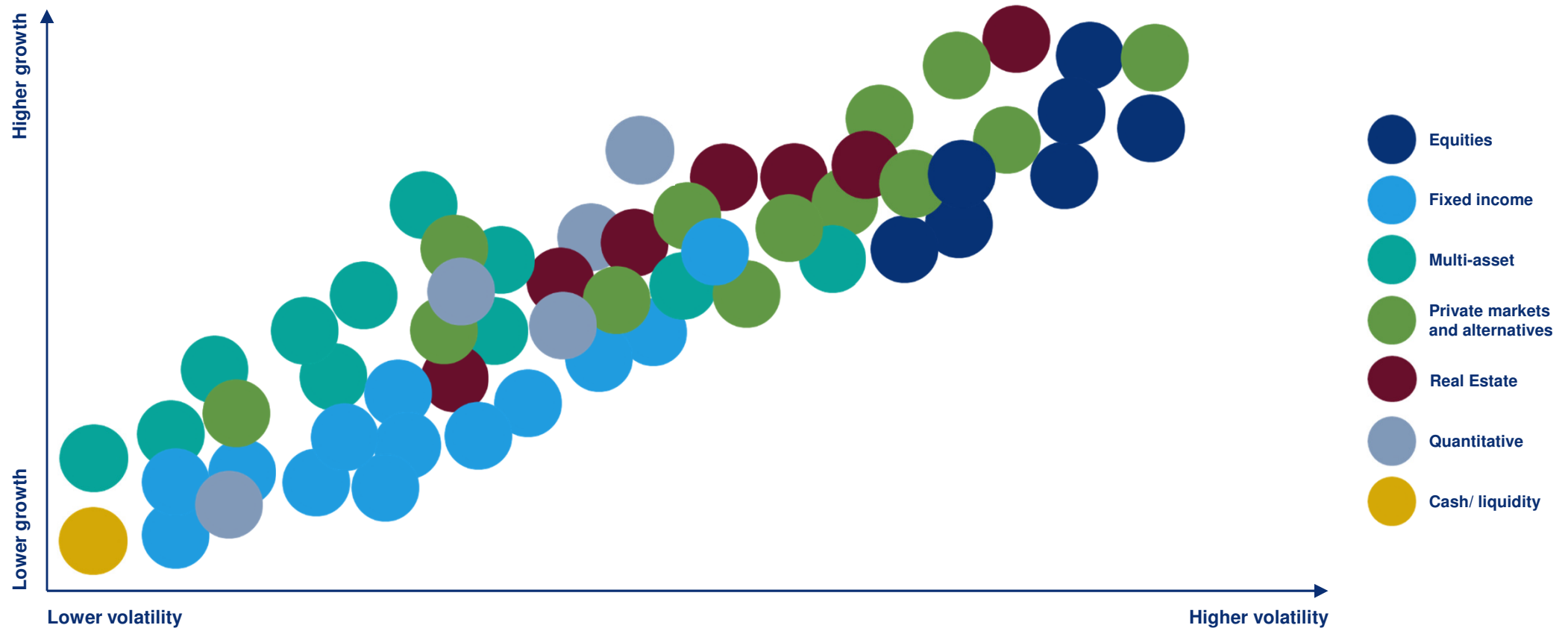
Pre-2010 capabilities



Conceptual view of our investment capabilities.

Evolving the breadth and depth of investment capabilities

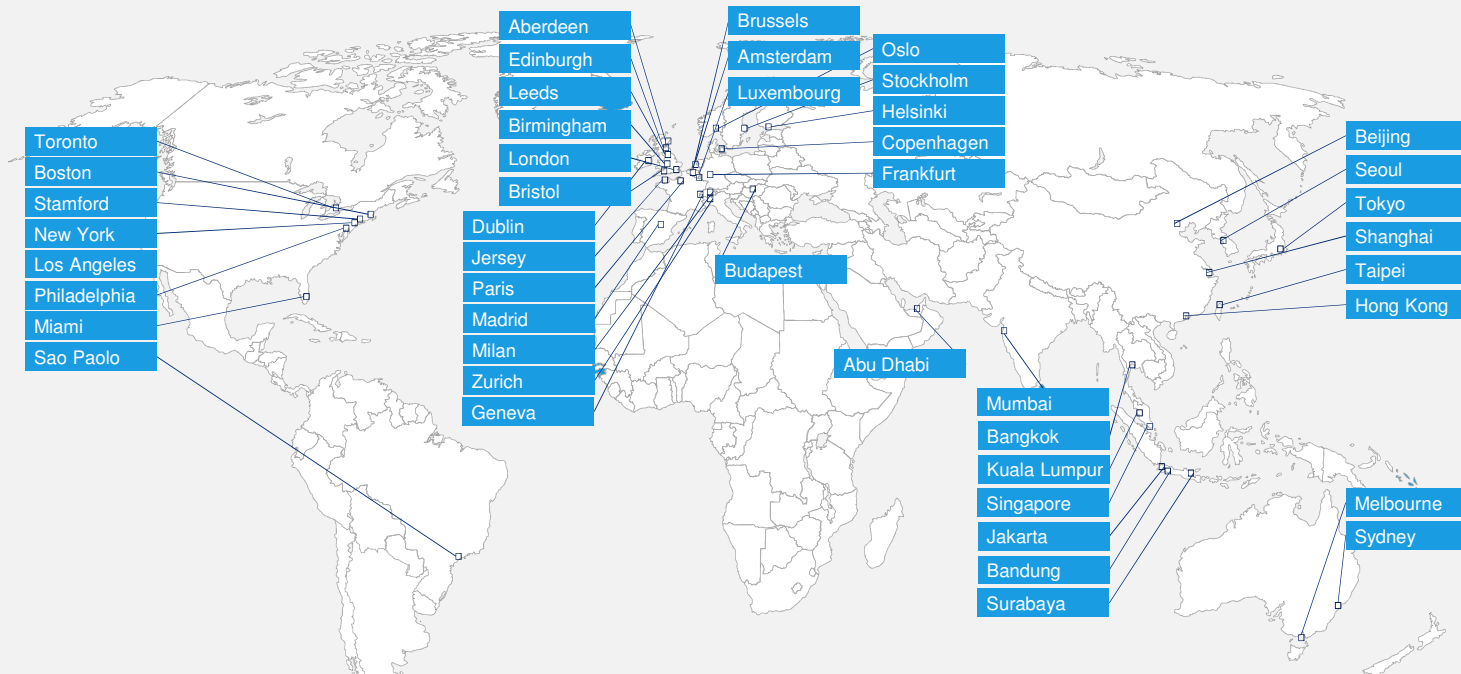
Current capabilities



Conceptual view of our investment capabilities.

Building a strong platform to compete globally

Proximity to clients is increasingly key



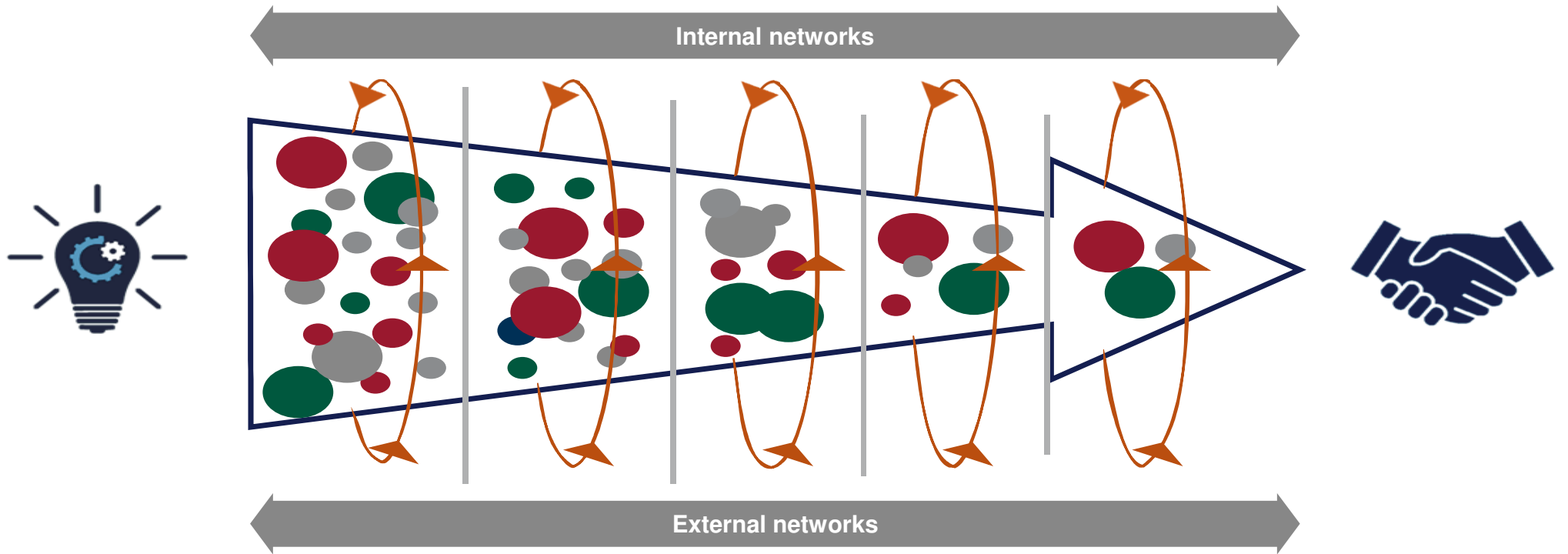
Global Coverage:
46 unique distribution locations

Global Clients:
Clients in over 80 countries

Strategic partners: Mitsubishi UFJ, LBG, HDFC, Heng An, Sumitomo Mitsui, Phoenix Group, John Hancock, Manulife, Bosera, Challenger

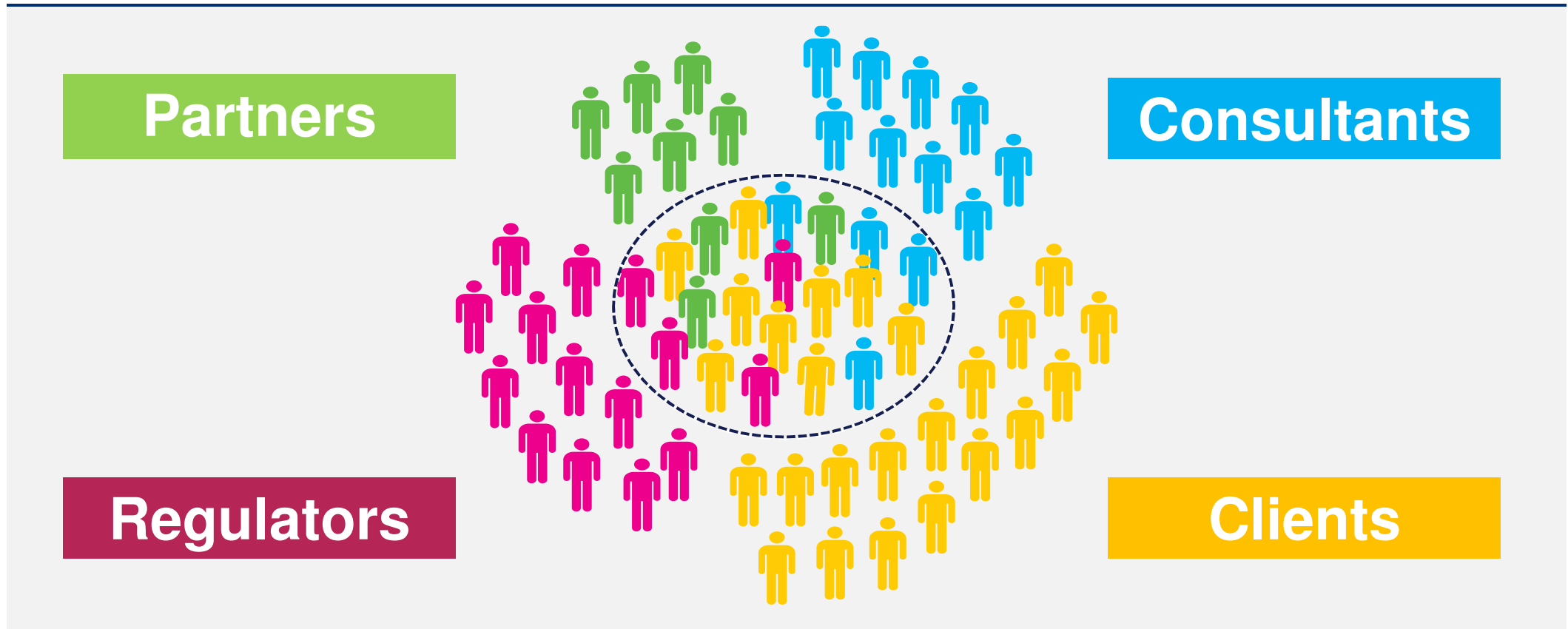
A connected approach to innovation in asset management

The importance of networks



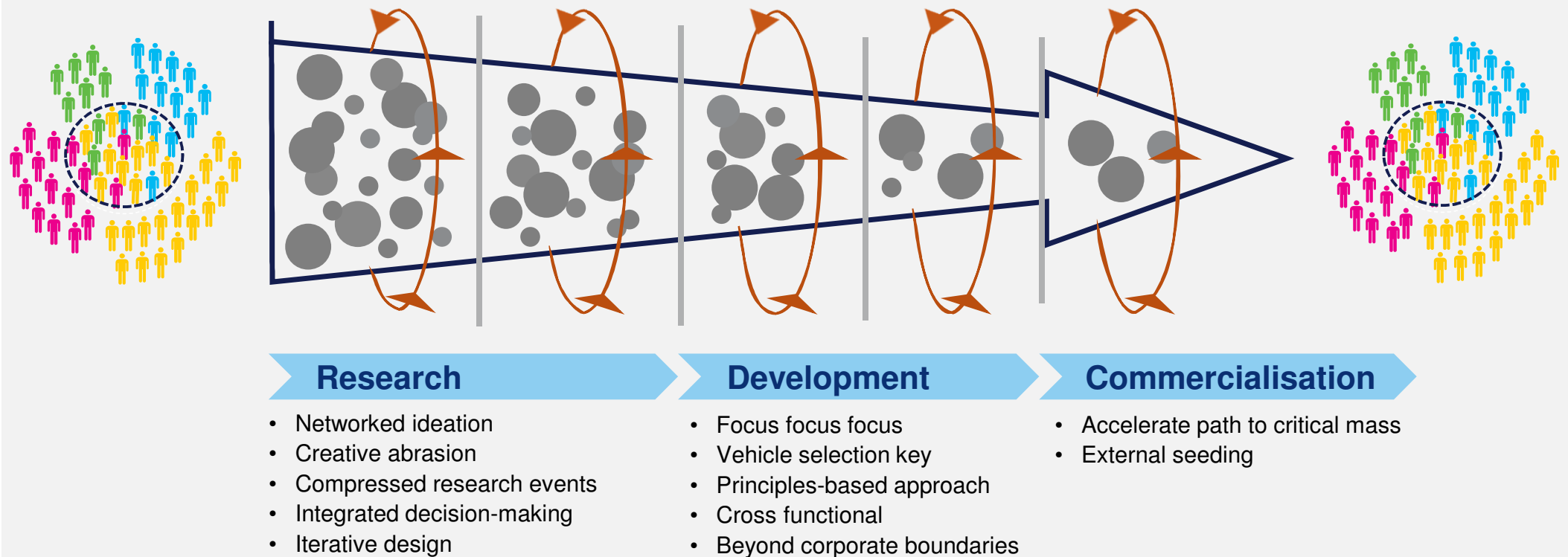
A connected approach to innovation in asset management

Creating innovation networks with key stakeholders



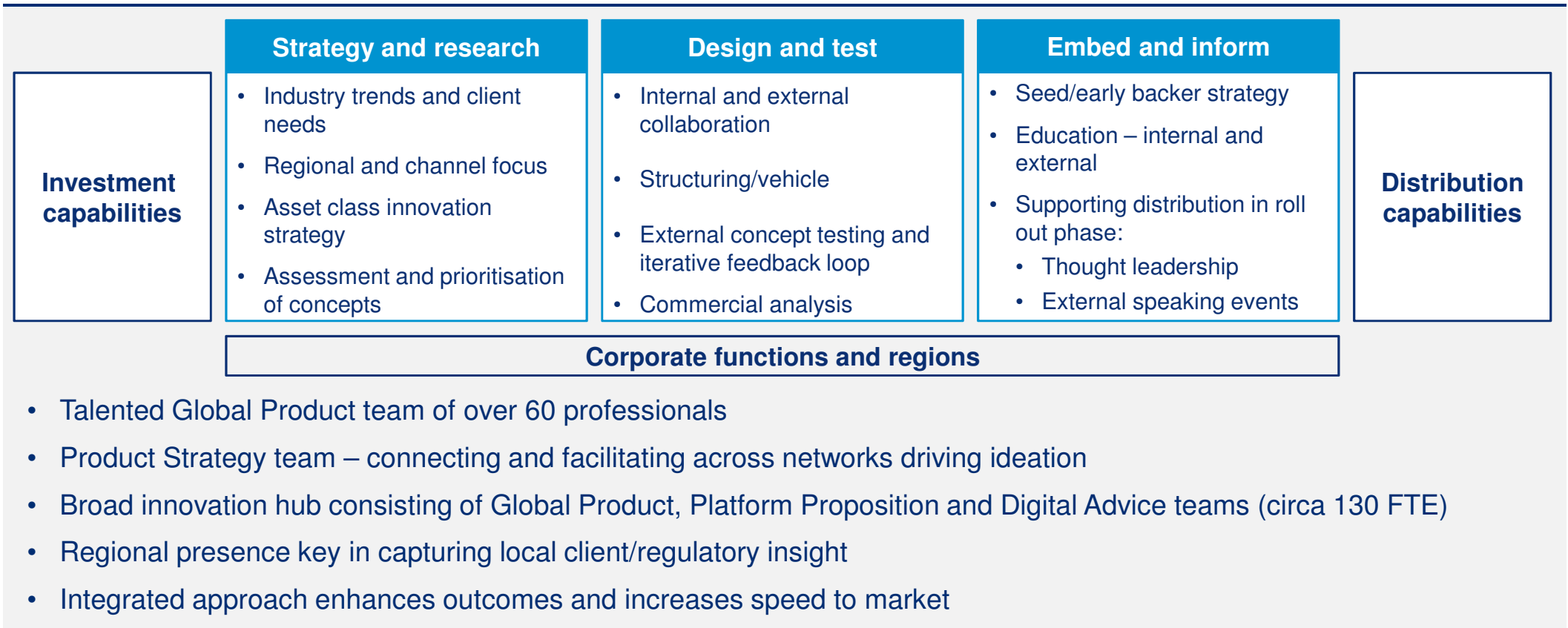
A connected approach to innovation in asset management

Enhancing flow and margin



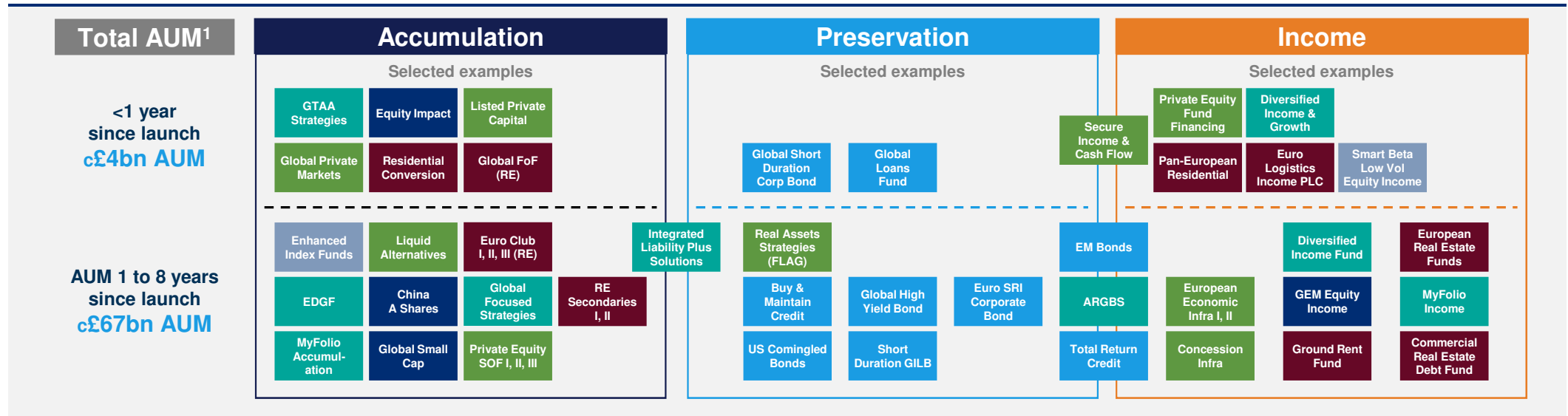
Disruptive innovation through knowledge and collaboration

Well resourced and talented Global Product team with proximity to clients



Attracting in excess of £70 billion of AUM since 2010

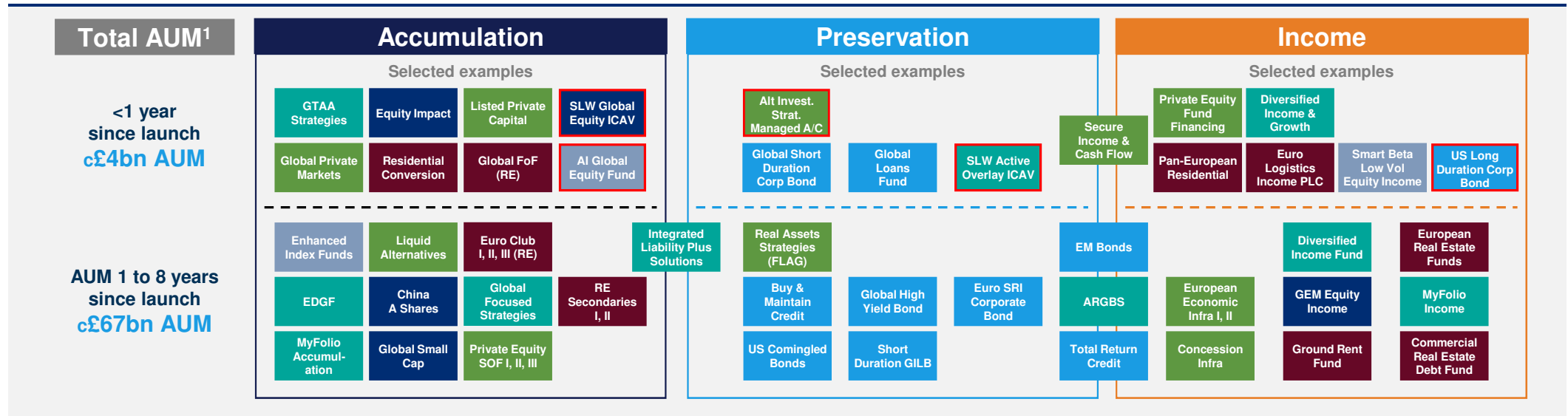
Representing c25% of non-insurance AUM



1. Total AUM as at 30 June 2018.

Attracting in excess of £70 billion of AUM since 2010

Representing c25% of non-insurance AUM



- Accelerated through 29 launches in 2018 YTD compared to 22 across the whole of 2017
- Strong pipeline of innovative ideas across region, channel, asset class and outcome

1. Total AUM as at 30 June 2018.

Our research and development priorities

Focusing innovation resource on the areas of market growth

- Private Markets
- Multi-asset solutions
- Alternative betas and uncorrelated alphas
- Thematic investing / sustainable investing
- Cash-flow driven investing
- Next generation DC solutions
- Investment vehicle innovation

Longer term opportunities – the growing impact of technology

Future technologies and trends with significant potential to disrupt traditional asset managers

- Structured and unstructured data as a source of alpha
- Blockchain and 'tokenisation'
- Artificial customer proximity
- Client, customer and portfolio analytics
- Broad digital customer experience

Innovation – creating a sustainable competitive advantage

Significant P&L impact and a continually improving and evolving process

Benefiting flows, AUM and earnings

- The contribution to flow – the misconception of the three year track record
- Strategic innovation drives diversification
- Strategic innovation enhances revenue margin
- Coherent vehicle strategy delivers scalable and profitable growth
- Disciplined range management drives efficiencies

Strong, efficient and repeatable process

- Innovation is a key corporate focus – organised and resourced to succeed
- KPIs drive output and continual improvement
- Accelerated research events compress time to market
- Process efficiency – new product delivery has doubled in 2018
- External seeding – the true measure of co-creation
- Success ratio (achieving €100m fund AUM) approx. twice the industry average of 33%¹

1. Source: MackayWilliams analysis.

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