Standard Life Aberdeen
Half year results 2020

7 August 2020

Keith Skeoch, Chief Executive:

Good morning and welcome to Standard Life Aberdeen's half year results presentation for the first half of 2020. This is my final results presentation as CEO. In a few minutes, I will provide an overview of the business. First, however, let me brief you on the logistics for this call. Even though this is a webcast, we need to display the disclaimer, and here it is.

After my presentation, I will be joined by Stephanie Bruce, our CFO, who will take us through the financial detail. I will then return to provide a summary of the first half. We will then be joined by Sir Douglas Flint, our chairman; Rod Paris, our CIO; Campbell Fleming, our Global Head of Distribution; and Noel Butwell, the CEO of Standard Life, all of whom will be available to answer your questions at the end of the presentations.

I have to say that the first half of 2020 has been the strangest six months that I've experienced in the 40 years I've been involved in financial markets. And that's a period, by the way, that straddled four recessions in the UK and 10 major financial crises around the world. Yet, we've never before seen the savage swings in either economic activity or markets that characterise the COVID-19 pandemic. Our results clearly show that the main impact of the COVID crisis on our business is through its impact on revenue, which is adversely affected by both the volatility in markets and the slowdown in gross flows that accompanied the shift to lockdown.

Resilience and financial strength in uncertain environment and volatile markets

Within those COVID-affected headlines, which Stephanie will analyse in more detail, the first half also reinforced the underlying resilience in the business and the progress we continue to make on matters within our control. I'm incredibly proud of both our people and their hard work during these unprecedented times as we continue to focus on those things that we're able to control. We reduced costs by 11%. We remain on track to deliver the synergy targets associated with the transformation program. We continue to innovate as we launch new products and adapted to new ways of working.

The improvements in investment performance continued at that vital three-year time horizon, and its impact can clearly be seen in the lowest redemptions of three years, excluding the funds transferred to Schroders from the Lloyds Banking Group.

The hard work put in by our distribution teams, as they shifted from working face-to-face to remotely, helped keep the turnaround in net flows in place.

At the same time, we continue to improve our financial strength and the quality of our balance sheet, enabling us to pay an interim dividend of 7.3 pence and continue with our £400m buyback programme. We enter the second half of the year in a position of operational and financial resilience. And by focusing on the things we can control, we continue to lay down strong foundations for future growth.

Purpose-led response to COVID-19

Right at the heart of these actions is our purpose-led response to the COVID crisis, with clear communications, increased connectivity, and a clear shift to a common culture supporting the overall resilience of this business. This has been clear to colleagues, clients and customers, and our local communities through a set of demonstrable actions. Within two weeks of the initial lockdown, 99% of our colleagues in the UK and 95% around the world transitioned to working from home. They seamlessly navigated two quarter ends, supported by each other and the rollout of technology and equipment to facilitate more agile working when they were away from the office.

Our distribution and thought leadership teams quickly shifted to ensure our clients and customer touchpoints were largely digital. We were also one of the very few firms to keep our customer service centers open through lockdown. We made a concerted effort to ensure that our community support programmes were quickly pointed towards the most vulnerable in the local communities we operate in, whether that's supplying ventilators in Malaysia or, indeed, helping food banks in Edinburgh or Philadelphia.

These changes to the way in which we work have been underpinned by the move to a common culture. For me, the standout area where we continue to make great progress is the creation and embedding of a common culture across the group. We've conducted several mood surveys during the crisis and the latest taken in mid-July showed very positive findings: 73% of our employees say they're proud to work for Standard Life Aberdeen, only 7% registered a negative response; 72% were positive about their work; 44% said they are benefiting from a better work-life balance; 81% felt well-supported by their manager; and 79% felt their teams were adapting well to working remotely. These scores represent a dramatic improvement from the dark days of 2018, when only 53% were proud to work for Standard Life Aberdeen. And the fact that the improvement is spread throughout the business is a clear sign that, three years on from the merger, there is evidence that a common culture has formed.

Robust investment performance

One area where this is most visible to the market is the sustained turn in investment performance. Performance has remained robust in the face of very volatile markets, providing evidence that the performance enhancement plans put in place by Rod Paris and his team over the last few years have made a critical difference. The all-important three- and five-year numbers are robust: 68% of funds are ahead of benchmark at three years, and 65% at five years.

It's worth reminding ourselves, as we look at the left-hand panel on the chart, that 2018 was one of the worst years for investment return on record, followed by one of the best in 2019, to be followed by one of the most volatile I've ever seen in 2020.

Our comments on the outlook for markets are in my closing remarks. But the fact that we continue to improve our medium-term record speaks volumes about the quality of our investment teams. The majority of our equity funds outperformed during the first half, with notably strong performances in smaller companies and long-term quality funds in developed markets. Credit and Emerging Market debt funds continue to outperform after a wobble in March, and Multi-asset is well into positive absolute return territory for the year to date.

The combination of robust investment performance and the creation of a common culture has also generated a significant improvement in consultant rankings. 51 of our strategies are now ranked by consultants, compared with 43 at the time of the merger.

Improvement in redemptions in volatile markets

This combination of improving investment performance and consultant rankings is most visible in our flows. Despite subdued industry flows in the first half, our flows remained resilient. This was helped by £9bn of inflows into cash and liquidity funds, the highest we've seen in three years. Gross flows were 5% up on the first half of 2019. However, the biggest improvement was in redemptions, excluding the Lloyds Banking Group. While we saw outflows of £38.1bn in the first six months, this compared with £51.3bn in the second half of last year, and peak outflows of £61.8bn in the final half of 2018. The combined effect was to continue the momentum seen in the second half of last year, and maintain the momentum back into net inflows.

Benefitting from innovation across channels, assets classes and geographies

Our pipeline of clients wins were robust with £7bn of mandates won but not yet funded – similar to the pipeline at the end of 2019. At a time when the pricing pressure on traditional mandates remains intense, the quality of our offer to clients and customers has never been more important.

The pattern of flows continues to benefit from our track record on innovation. We generated £14bn of AUM from new funds launched since merger, at an annual management charge of 50 basis points, significantly above the 39.5 basis point yield on the historic book.

In Institutional and Wholesale, we have seen strong flows into our ETFs, especially gold. We continue to win Emerging Market debt mandates, and our China A Shares fund continues to move from strength to strength.

Though not strictly in the first half, I should also mention the merger between Murray Income and Perpetual Income & Growth, to create a combined trust of over £1bn, attesting to our growing reputation in equity income.

While the COVID crisis has delayed the planned presentation on our Wealth businesses, we continue to make progress particularly on the digital front. Digital Retirement Advice is now available for those customers receiving advice, our “Choices” app is in beta testing and utilises open banking to engage with younger savers and provide them with direct access to our savings products. We are encouraged by these new routes to markets.

Throughout our offering, we also continue to develop our ESG franchise and now have £25bn of AUM that are categorised as responsible investing. ESG has also been central to our engagement with clients during the first half of the year. We have also had ESG-specific engagement with some 216 companies in the first half and voted at over 3,000 general meetings. We wrote to all of our actively held FTSE 100 companies detailing what we expect of them during the COVID crisis. And, just as important, what they can expect from us.

Management of investments to generate value

While the full force of the COVID crisis pointed our attention towards the well-being of colleagues, clients, customers and our local communities, we also maintained our focus on executing for shareholders through managing the investments on our balance sheet. We continue to work to build a strong strategic relationship with Phoenix, and our AUM has benefited from the bulk purchase annuities that they announced in their results yesterday.

In difficult market conditions, we also raised over £700m from completing the minimum public shareholding for HDFC Asset Management, and we sold down our stake in HDFC Life to just over 10%. This has been a terrific long-term investment which has delivered an IRR in excess of 30% on our initial investment of £290m and enabled us to raise £3bn from monetising these stakes. That's been instrumental in improving the quality of the balance sheet as evidenced by the increase in gross liquid resources to £2.8bn and helped ensure that we deliver on our strategy of deploying our financial strength for the benefit of shareholders. This is reflected in the Board's decision to pay an interim dividend of 7.3 pence, the same as in 2019.

Together we invest for a better future

So in summary, in this strange six months, thanks to the magnificent efforts of our people, our business has been operationally resilient, has forged a common culture, and has improved its financial strength, allowing us to continue to build momentum and lay down the foundations for future growth.

I'll now hand over to Stephanie, who will walk us through the financial detail for the first half. Stephanie.

Stephanie Bruce, Chief Financial Officer

Thank you, Keith. Good morning everyone.

Analysis of profit

Our performance in this period reflects both the resilience and diversification of our business activity. In these six months, we had the backdrop of an uncertain environment, market volatility, and the completion of further exit of the Lloyds Banking Group assets. Lower markets have reduced the assets under management and administration of the existing business. Market sentiment has also slowed the extent and nature of new flows from the levels we have seen in the second half of 2019. With the market pressures, revenue in the six-month period was 13% below the prior period.

In these markets, therefore, more than ever, our focus is on what we can control. So it's pleasing that the continued improvements in the core fundamental of our investment performance is making a difference, particularly on redemptions.

In addition, our focus on financial discipline is key, and we've continued to make good progress on controlling and targeting our costs, such that costs are 11% lower. I will cover both revenue and costs in more detail shortly.

Moving down the slide, capital management movements principally reflect, in accordance with accounting requirements, the mark-to-market values of our seed and co-investment funds and, overall, these have been adverse in this period. We expect this to be temporary if markets improve.

Moving to JVs and Associates, the reductions in profit reflect principally the reduced holdings in our

Indian stakes compared to prior period. The adjusted profit before tax for the six months to June 2020 is £195m, a reduction of 30% on the prior period. The IFRS result before tax is a loss of £498m, reflecting the impairment of £1.2bn for goodwill and intangibles as a result of increased market uncertainty in the COVID environment.

These non-cash adjustments have been offset in part by the cash generated from the further successful stake sales of HDFC Life and HDFC AMC holdings, creating a gain of £651m. After these sales, these holdings continue to retain a value of £2.4bn. The conditions of this COVID environment have been tough for all. As a business, our focus has been our clients and our colleagues. From a financial perspective, our strength has meant that, in this period, we have not needed to rely on any UK government schemes, we made our final dividend payment in May, we have continued our approach to management of our Indian stakes and the buyback programme that we commenced in quarter one. While earnings per share is impacted by lower revenue levels in this period, the buyback programme has benefited adjusted earnings per share by 6%.

Revenue impacted by volatile market conditions

Our business delivers our services to clients and customers through specific channels: Institutional, Wholesale, Strategic insurance partners, and Platforms and Wealth. Each channel represents different opportunities for us to bring the best of our capabilities to those clients and customers. And this, therefore, determines our focus to ensure that we respond to changing needs and to do so profitably by adapting the cost to serve, particularly in the changing environment.

In Institutional and Wholesale, revenue decreased by 13%, reflecting the impact of market levels and net flows in recent years, particularly impacting revenue earned from holdings in Equities and Multi-asset, which are 19% and 30% lower than the prior period. Offsetting this position, we have seen revenue grow in Fixed income by 6% and Private markets by 19%; together with a 17% increase in revenue from flows into liquidity holdings as clients have changed their risk profiles.

In the Strategic insurance partners channel, the underlying business is represented by mature books, which naturally run off. The majority of the movement here relates to the Lloyds Banking Group exits but, leaving this aside, in this six month period, revenue in this channel has been largely stable as the run-off in this book is replaced by top-ups of existing business and bulk purchase annuity activity in the insurance client base.

In Platforms where we recorded another period of positive net inflows in Wrap and Elevate, we have seen a decrease in revenue, reflecting the lower pricing on Elevate in 2019 and Wrap in this period.

In Wealth, revenue has been aided by continued positive net new flows and the benefit from the Grant Thornton and BDO purchases in the second half of the year.

Lower revenue yield due to changes in asset class mix

In revenue yield, we have seen an equivalent pressure as in the prior period of approximately 1%. The decrease in the average revenue yield reflects principally a lower average in Institutional, Wholesale and Platforms. For Institutional and Wholesale, this reflects offsetting factors in this six-month period. Positive movements have been evidenced on Equities and Fixed income, reflecting the benefits of flows into China A Shares and Emerging Market fixed income.

Adverse movements have been evidenced in Multi-assets and Quants. In Multi-assets, this reflects net outflows and absolute return strategies of £1.2bn, partly offset by net flows into MyFolio, which are lower margin at 25 basis points.

In Platforms, the decrease in yield reflects the impact of the price changes in Elevate and the price change in Wrap that I mentioned earlier.

For all areas, but Equities in particular, we are now seeing the benefit from the focus on investment performance, as creating value for our clients and customer, in turn, continues to support the yield we earn in our services. Aside from normal competitive pressures, we are not seeing in these conditions systemic pricing pressure on any particular asset area. Rather, continued recognition of the value of investment performance in a volatile and low yield market.

Net flows by channel

Turning to the underlying activity on flows in our key channels. Overall, we have recorded positive net flows into the business, leaving aside the Lloyd's withdrawals, with the improving trend being on redemptions. Now, starting on the left-hand side of this slide, the flows on Strategic insurance partners, again leaving aside the Lloyds Banking Group exits, depends on the profile and activity of the underlying insurance clients in replacing their business as it moves into drawdown. Now, in this period, we saw a net outflow in this area of £1.3bn, which represents an improvement on the first half of 2019. However, this is lumpy business and we are expecting higher outflows in the second half than the recent period. The Phoenix ReAssure deal has also now completed. ReAssure is an existing client, and we continue to see good opportunity in this partnership.

Now moving to the center of the slide, in the Institutional and Wholesale channel, we recorded a small net outflow, but pleasingly we have seen a further six-month period of improvement. In particular, redemptions are at the lowest level in the last three years and are running at around 40% of the highest levels in 2018. This is further evidence of, firstly, the impact of the actions we have taken to improve investment performance and, secondly, our prioritisation of client service and relationships, which has continued the momentum started in the second half of 2019 even in these new working environments.

We've been successful in adding new clients in these channels this period, attracted by the capabilities and services we provide. For example, a $1bn of net flows into ETFs in this half and our appointment by a US state pension plan to manage a $500m Emerging Market debt mandate on their behalf.

In our gross flows of Equities and Fixed income, we have seen an increase of 26% and 53% respectively on the comparative period of 2019, and retention of the improved flows that we saw in the second half of 2019.

On net flows, compared with the prior period, we have seen improved net flows across all the major asset classes. For example, we have generated improvements in Equities and Multi-asset of 46% and 73% respectively. Now, specifically on GARS, we have seen additions of new business, but the big difference here is on redemptions, which are £1.4bn in the six month period compared to £11bn for the full year last year and £6bn for the comparative period.

Now, with improved market movements on GARS, the assets under management in this space has been broadly stable with the year-end position. That's the first time in three years.

Moving to the right-hand side, in the Platforms and Wealth channel, the factors here are different. Our activity here is UK focused. The market is large and growing, and we continue to have a strong record on creating net inflows. We see opportunity for gaining share in a growing market. So our focus is on building our book of business through connecting all elements of our existing strengths in this area. Our Platform customer numbers have grown over the prior period, as have our advisor firms. So, overall, a more pleasing picture on redemptions and gross flows doing well to perform up from the prior period.

Continued focus on financial discipline

So, moving to our continued financial discipline to aid the profitability of our business. We've continued to make good progress on targeting cost reductions in areas where we have low profitability or are currently loss-making. We continue to look at all areas of the business for their profit contribution and to take action to improve or recognise those that are not core for our operations. As an example, in this period, we commenced a review of our European real estate strategy, which has resulted in us exploring the sale of our Nordic real estate property management business.

Overall, costs have decreased by 11%. Within this, staff costs have decreased by 9% on the comparative period, with the key movements being recorded in long-term contractors and temporary staff. Non-staff costs have also reduced by 12%. There have been some increases in this period, including costs for the Grant Thornton and BDO activity which were brought into the business in the second half of 2019, and small increases in outsourcing costs as other services are transferred. These increases are more than offset by decreases through planned changes in marketing, travel, and professional spend.

We have also seen additional savings in this period in respect of travel and events in particular. We were already seeking to be more effective in how we manage our impact on the environment, but the change from mid-March has been stark. We estimate £10m of such cost savings relate to the COVID restrictions, so we do expect an element of some of these costs to come back once markets change.

The further areas of investment and inflation to highlight to you reflect the increases on employee compensation and other inflation on third party services. And we do typically see further wage inflation in the second half as our salary increases take effect for the full period.

On synergies, we continue to realise benefits through the profit and loss given the stage we're now at in our transformation, this realisation is more lumpy and the main areas to be realised through the profit loss in the next 12 months are around our operations and technology arena, as these areas complete much of their planned activities.

While operating costs have been reduced in the [half] by 11%, our cost/income ratio has increased to 85% in the period due to the revenue reduction I highlighted earlier. This revenue reduction has been concentrated in Institutional and Wholesale, so the cost/income ratio increase is principally in this space. As highlighted at the year end, we have commenced addressing the cost/income ratio in the Platforms and Wealth arena, with good improvements to date. However, an overall cost/income ratio at 85% is not good enough. We had expected our cost profile to remain high in 2020 and 2021 as we complete our transformation and this is now made more difficult in a period of uncertainty and volatile market conditions which create additional revenue challenges.

With prioritisation of financial discipline, we are staying focused on the actions to address profitability, and while we expect our cost/income ratio to remain high in this transformation period, thereafter the benefits of our actions will enable the achievement of our goal for cost/income ratios to be aligned to industry averages.

Transformation changes nature of cost base

With our ongoing transformation activities, we are aiming to do two things. We're investing in practices that are modern and fit for the future by harnessing the benefit of new tools and technology that we did not have in the business. And secondly, we're seeking to change the nature of costs, and create flexibility in services which are not core. Given the nature of the change and the complex interaction with the separation from Phoenix, it will take time to see the benefit.

In terms of transforming our cost base, it is helpful to understand the progress and synergies, but also more widely on how we are transforming the nature of the base. Now, this slide shows the progression of the specific transaction synergies that we have identified. And as a reminder, this was originally £200m in August 2017, and we reported at March 2020 that we expected to realise £400m of synergies by 2021. During this six month period, we have continued to progress our programme of transformation, despite working remotely. In respect of synergies, we have now achieved £323m of the targets. This is over 80% of the increased target and we are well-placed to obtain the next milestone of £350m by the end of 2020, with a further £50m taking the total to £400m in 2021.

Now there are four key activities being undertaken currently to help change the nature of our cost base, contributing to both the synergy target and other efficiencies across our business.

On our investment platform, we are in the final stages of streamlining our trade order management system, middle office providers and data layers, which enables greater leverage of the cost base. On the platform experience, we are upgrading our back-office activities so we can streamline the multiple sets of infrastructure, including manual processes that support our services at present. In doing so, we can then ensure the adviser and customer experience remains both relevant and enhanced with new technology.

The third key aspect is our technical and operational independence from Phoenix in 2021 and this is being undertaken in a way that the new processes operated by SLA will be simpler and represent modern practices to replace the older transferred processes. One such example is in the fourth area highlighted here in the Finance arena, where we are addressing the multiple older legacy processes and systems in order that we deploy a modern, streamlined system and process that's fit for our business.

Continued improvement in financial strength

We are ultimately focused on capital generation across the business to support returns to shareholders through both positive benefits from new investments into the business and through direct returns. One element of that strength is the extent of the surplus capital as a proportion of the total equity, which has improved in this period. Now this chart highlights the key sources and uses of capital within our surplus regulatory capital in this period. We have again strengthened our capital position in the first half of 2020, despite the tough backdrop, through management actions to realise value from our stakes, and our focus on enhancing the generation of capital from our operating activities. Our uses of capital in 2020 to date have continued to support transformation restructuring, albeit at a lower level of spend now compared to prior periods.

In addition, we have used capital to undertake the buyback – as at the half year, we had completed £175m and, as of last night, we had completed around £222m which is 55% of the programme.

Our net liquid resources have increased to £1.9bn, with gross liquid resources increasing to £2.8bn; that's a 12% increase. The financial strength we have created provides enhanced resilience, which is even more important in challenging markets. The operating result is generating a lower level than we are targeting longer term so looking at growing the capital generation from our operating activities, we will be continuing our focus on streamlining the cost base so that it is fit for the future.

In addition, a key priority will be generation of greater growth in Wholesale, particularly in solutions for the changing needs of the public, and Private Markets – and in Platforms and Wealth activities, given the scale of the need for, and therefore the opportunity for, investment savings and advice.

Our operating performance, together with the strength and quality of our balance sheet, have enabled the board to maintain our entrance dividend of 7.3 pence at a cost of £159m. We're also continuing our buyback program that we commenced in quarter one. Even after taking account of this further return, the surplus capital will have increased to £1.8bn.

As a deterioration in economic conditions resulting from the COVID environment, and the uncertainty in markets and resulting pressures, are expected to continue for some time, we are, through our normal planning cycle, reviewing and assessing the challenges and opportunities for our business in these changed markets.

Resilient business and financial strength

So, in summary, this has been a difficult environment for everyone, but this business has been resilient in its operations. And despite the conditions, we have stayed focused on our clients and generating new business that is diversified across our strengths. Our financial discipline remains central, so that we grow profitably and think return in all our investments, and in how we deliver for shareholders. Our financial strength is strong and has continued to improve, and that is even more valuable in such uncertain times. I will now pass back to Keith.

Keith Skeoch, Chief Executive:

Thanks, Stephanie. As I said earlier, this is my final presentation before I step down as CEO. It's the 12th time I've led a results presentation, but my 30th time on the results podium since we floated Standard Life back in July 2006. Two common themes over the intervening 14 years are the continuing and accelerating pace of change in the industry and that volatile markets have actually become a fact of life.

The FTSE last night closed at 6,027, which is only 2.3% higher than on the day of the IPO 14 years ago. But of course, it's been as low as 3,512 and as high as 7,877 in the meantime. I've always believed in taking a long-term perspective and would argue, given the strange circumstances we find ourselves in, that it's never been more important. So what about the outlook? From my perspective, the economic and market environment looks tough and uncertain amidst increasing hopes of a V-shaped recovery. That V is very dependent on the development and deployment of another V, a vaccine that will deliver victory over COVID-19.

We know from history that recessions induced by pandemics and bear markets without a financial crisis tend to be short-lived. If that were the case, the pattern we saw in markets in 2018 and 2019 could well be repeated and the FTSE would test out new all-time highs in 2021. However, I've got to say, these are very special circumstances, given that the average efficacy of the flu jab hovers around 40% for some strains. Never have the economy, markets and health been so interlinked. We have yet to see the full economic effects of lockdowns around the world or the after-effects of the current pick up in infection rates. High debt levels in part of the corporate sector and the inevitable phasing out of government support all point to a further significant increase in structural unemployment and a period of slow growth.

If this is right, then the equity markets outside the US tech sector are reasonably priced and may only deliver single digit returns, which would imply it may take several years to make it back to peak levels for the FTSE. In addition, the COVID crisis changes many things: the way we work, the importance of household financial resilience, the clear need for parts of the corporate sector to de-lever and re-equitise, as well as an increasing acceptance of government intervention. All factors that will inevitably reshape the nature of client and customer demand and also suggest that the tough operating environment is likely to persist for some time.

Summary

In my view, Standard Life Aberdeen is well-placed to deal with these challenges. The actions taken to improve our investment performance, reinforce our operational resilience, enhance our financial strength, and create a common culture, put in place strong foundations for future growth. These will help the business adapt under Stephen Bird's leadership to changing circumstances, as the business has actually done throughout its 195-year history.

So, as I prepare to step down and return to my research roots, I would also like to thank everyone on the call for their support, their engagement, and occasional forthright challenge during those 30 results presentations. I wish you all well, but would also leave you with a challenge: to make sure you all take the long view.

Thank you.

Stephanie, Rod, Campbell, Noel, Sir Douglas are now available to answer any questions you may have. Operator, over to you.

Question and answer session

Andrew Crean, Autonomous: Morning all. And Keith, I think I've been there with you all 30 times. So, it will be very sad to see you go, but thank you for all your efforts. I just wanted to ask a couple of questions. Firstly, on the dividend, I can see that the cash EPS of 4.5 pence doesn't cover half the current dividend. I was just wondering when you're going to review that. Is it going to be at the end of this year or at the end of 2021 when you've finished your restructuring process? And what your thoughts are between covering the dividend from underlying cash generation as opposed to covering the dividend from surplus disposal proceeds?

The second question I wanted to ask was on the costs and cost/income ratio. And particularly, I think you talked, Stephanie, about reaching industry peer levels of cost/income ratio. I wonder whether you could actually put a figure on that. And could you talk a little bit about the other cost savings? The £[57]m or £[47]m ex COVID savings. Those are now becoming more substantial than the actual synergy cost. Just wondering whether they will continue at the same level or whether you've squeezed the lemon pretty hard already.

Keith Skeoch: Thank you, Andrew, and thank you for your kind words. On the dividend, I think that gets reviewed under the normal business planning cycle. But actually what I'll do is I'll hand over to Stephanie, who'll provide, I'm sure, more detailed answers to those questions.

Stephanie Bruce: Yes. So, in terms of the dividend, we very much will be looking at it as part of our normal process. In terms of the interim dividend, it very much reflects our operational performance and the quality and the strength of our balance sheet. And in terms of the overall adjusted profit after tax position, in terms of the interim dividends and its cover; but you're absolutely right in terms of the adjusted capital generation for the dividend, we will clearly continue to be monitoring that and looking at that going forward. But it's very much in terms of … I go back to in terms of our financial strength. I mean, the board has confirmed that it's very much focused on that financial strength – and, in maintaining our dividend and continuing the buyback, I think that's evidence of that.

We will clearly be alive, and are alive, to obviously the circumstances that both Keith and I have talked about as part of our presentation and are with us through the economic conditions that arise from the COVID environment. And we will be very much looking at that as part of our normal business planning cycle as we go through and come back for the finals.

In terms of your question on cost/income ratio, it's an interesting point. In terms of the industry average, I think in the current process industry average will be moving quite a bit in terms because we can already see that going that going up in a number of places. So, to be honest, I'm not going to second guess and give you a precise figure at this point in time. But, safe to say, 85% is not anywhere where we want to be, and we will continue to work through on the sorts of cost reductions that we have been undertaking. But obviously, the cost/income ratio also predicates that we will be working on the top line as well in terms of the revenue growth.

In terms of just the cost efficiencies, it is as I said in my presentation; it really reflects a number of aspects. The timing of the synergies as they come through, that we've identified is, as I said, quite lumpy. It depends on certain activities being undertaken through a very complex transformation programme. So, we will continue to see more of those coming through and being realised. In terms of the broader efficiencies, it relates to very much our focus on the financial discipline and particularly in and around areas of professional spend, very much managing our contractor and our temporary spend, temporary employees, because we had a large volume, for lots of good reasons historically. But we've been looking to have to manage our staff costs differently in that regard, but also our non-staff costs in and around our professional spend, our marketing, our travel, all of those areas that you would expect.

In terms of looking forward, I think we will definitely see some of that coming back for sure, because as I highlighted an element comes through from our travel and events costs which have been significantly down in the period. But a lot of it is underpinned by very good continued focus on our financial discipline.

Haley Tam, Credit Suisse: Good morning. Thank you. Two questions for me, please. First of all, just to follow up on the cost question, could you clarify how much of the remaining £87m of synergies, of your £400m target, are dependent on the separation from the Phoenix service agreements? Given some of the commentary around your half year results today...

And then secondly, if I could just ask a question about flows outlook.

The second question was about fund flows. Can you talk about how we should think about the improvement for gross inflows rather than just lower gross redemptions? I think you said Wholesale was a key focus in the future. And I just wondered, given the big impairment write down of your asset management goodwill, whether you would encourage us now to think about the outlook maybe being from non-acquired businesses. Thank you.

Keith Skeoch: I think Stephanie deals with the cost issue and then we'll go to Campbell online to talk about the flows issue, and perhaps come back to Stephanie on the impairment issue.

Stephanie Bruce: So, in terms of the costs, in terms of our synergies of £323m as identified and reported today and looking through to the £400m, the interaction with Phoenix is just part of how we come through and we realise our overall transformation. But in terms of the -- it would be more dependent on which particular month they realise as opposed to in any way the items being at risk at all, Haley. That's not what the issue is; it's just really the timing.

In terms of the point that you talk about in terms of our Phoenix dispute, that really is slightly old news, I'm afraid. And it really just comes out of a set of risk disclosures that both companies have made just because there's an ongoing… some very complex arrangements that sit behind our very technical separation in and around just some of the infrastructure. And we're just debating some very specific small items, but it is contained in that way. Both organisations have just made those disclosures before. It doesn't have an influence, therefore, on our ongoing basis at all.

Keith Skeoch: And actually, I think the strategic relationship with Phoenix is going from strength to strength. And that was reflected in us managing some of the assets behind those bulk purchase annuities.

Campbell, the kind of outlook for gross flows and then we'll come back to Stephanie to connect that with the impairment.

Campbell Fleming: Thank you, Keith. Hello, Haley. The outlook for gross flows, of course, I'd just point to the underlying momentum of the business that we're generating ex-Lloyds. There is a revenue mix that's consistent with client expectations. Keith referenced in his presentation the strong pipeline and also the £7bn of won not funded that we have on the book.

In terms of that pipeline, we are seeing the greatest interest in our fixed income capabilities and our multi asset capabilities, and once again, I refer to comments about the significant performance improvement, followed by our private markets and lastly equities.

So, if you recall, we've spoken about shifting to new active, and we've also been talking about shifting to private markets and the solutions piece. I think all those intentions are starting to come through, both in the momentum and also the pipeline, which is looking robust.

That said, I don't have a crystal ball. As Keith mentioned, we're in a significant period of uncertainty, but we have momentum. We're keeping close to our clients with our resources and our people. And I hope that we'll be able to, regardless of conditions, be able to meet their needs with our very large range of high performing strategies, products, and services.

Keith Skeoch: Great. Thanks, Campbell. And on the impairment, I think that's largely kind of backward looking and partly relates to market levels.

Stephanie Bruce: It is, absolutely. And normally, we would do an annual assessment, but really the COVID environment really represents an impairment trigger for the purposes of financial reporting. And the adjustment we're making really just reflects the impacts of those changed market conditions and the environment. And really, in effect, it is bringing the accounting into line with what's already been discounted through the market capitalisation and various other market indicators. In terms of applying rules, there's a lot of things that we can't take into account. We can't take into account forward cost saves or any of those aspects as well. And it really is an accounting entry, which is a non-cash notional movement that impacts the balance sheet, but it has no impact on our financial strength, which we very much measure by our liquid resources and the extent and the level of our surplus regulatory capital, which has improved in this period.

Haley Tom: Great. Very clear. Thank you very much.

Arnaud Giblat, Exane: Yes, good morning. With costs – sorry to come back to that – I think the run rate levels of the current revenues and your current level of AUM, and assume the full benefits of your cost synergies, I get a cost/income well north of 70%, which is where I have the industry standard for cost/income. So I'm wondering what are the other moving parts which you consider? Of course, there'll be more investment to come later, I would think. But what sort of revenue growth are you assuming to achieve this?

And secondly, on the cost again, a year or so ago, you talked about targeting a cost/income under 60%. That was dropped. But I'm wondering what sort of levels again are you looking to achieve?

Secondly, on ESG, you highlighted that you had £25bn of ESG related AUM. Looking at what is happening at the industry, ESG is taking the lion's share of flows. Do you have the capabilities in place to support a shift to ESG? What other investments do you need to be making to further capitalise on this market trend?

And third, coming back to the write off on Virgin Money, can you give us maybe a quick update in terms of what the distribution outlook looks there? Thank you.

Keith Skeoch: If I deal with ESG to give poor old Stephanie a little bit of breathing space and then we'll pass back to her for costs and also the Virgin Money.

So, yeah, ESG - this is an area of grand strength for us. And I think that £25bn compares with £17bn that we talked about a year ago, some of that is recategorising responsible investing. We've been involved in ESG and at the forefront for nearly 30 years. So, one of our massive strengths is ESG - embedded, well embedded, within our core investment processes - and we are able to report and issue an annual report on, you know, what we've been doing in terms of our stewardship. Inevitably, as ESG does take front stage there will be some investments to be made, and I think that will all be about the way in which you report the impacts of your ESG data on performance to the end client so you're meeting their needs. I have to say at the moment, I think that is an area of relative strength. And I think it will provide even more positive momentum for us behind the brand going forward. So, Stephanie, Virgin Money and then back to the cost and cost/income.

Stephanie Bruce: Yes. So in terms of in question – in terms of the distribution of Virgin Money, we have taken an impairment through on Virgin Money in this period, and that, again, really does reflect that the reductions in the projected revenues, and more about the timings coming through from the business planning process from the JV itself. And that really reflects the fall in equity markets and an increase in the timing they feel that they need to undertake their plans.

However, we still very much believe in that long-term market opportunity that's represented by the investment. The partnership does offer a fantastic opportunity to develop a business that combines the best of the talents of Virgin Money and also Standard Life Aberdeen. And I think more importantly, the joint venture also offers customers across the enlarged Virgin Money PLC group access to investment solutions, which will help them achieve their long-term growth. So yes, we're very much still focused on that as a route to distribution.

In terms of your other question around cost/income ratio and the different levels of that, I mean, clearly, I'm not going to try and second guess or tell you where we will be potentially in terms of revenue in these sorts of markets for all the obvious reasons. But I think, what I can say is, in terms of how we look at this, is the fact that we clearly need to be doing two things. We need to be increasing our sources of revenue growth in these markets, very much building on our capabilities. And as I say, that's why we're very clearly going through and identifying where those will be and particularly taking account of these changed circumstances.

But particularly on our existing cost base, we will continue, and we will be very focused on taking those financial disciplines through. Once we get through our transformation, as I tried to highlight in my presentation to you, there's a number of areas, particularly around our investment platform, but also in our platform experience that exists across the business that Noel is running, which will enable both of those areas to operate much more efficiently. And that is a key part as well. And again, we've talked before about the need to improve against the industry averages our cost/income ratio, particularly in the Platforms and Wealth arena, and that will continue.

Arnaud Giblat: Thank you.

Nicholas Herman, Citigroup: Thank you for taking my questions. Just a couple of clarifications please. Just in terms of… I think in the May update you guided to about £1bn of net inflows. Clearly you're now flat in June, so where's been the biggest delta since end-April? And if you could provide an update on performance since July that would be helpful, too.

Secondly, you referenced strategic insurance partners redemptions in the second half versus the first half. What are the… how are the margins on those outflows compared to the current run rate margin, please?

And thirdly, on costs – on the charts, on page 15, on the costs walk, where does variable comp fit into this? And I'm just curious if you can help us understand what contribution low and variable comp had in terms of first half costs.

And then finally on Platforms and Wealth. Just curious in terms of where, across that business, where are you most optimistic on growth? And just how much of the gap in terms of operating margins versus peers can you close, of that gap, through the cost steps that you are taking through 2021? Thank you.

Keith Skeoch: Okay. Some quite detailed questions. So if I kick off on the flows. Actually one of the issues as you go through a quarter or a half year end is money market flows are often quite volatile; they go off and they come back on. And obviously we will update later in the year on where we are on that. But I think the underlying momentum on flows, from what I can see, is intact.

Rod, do you want to give a very brief update on where we are on performance?

Rod Paris: Yes. Thank you, Keith. Just really a couple of things, really. You asked for an update from end June for the summer months and we as a house have remained risk facing. So we've continued, I think, to capture some of the positive movements we've seen in credit markets and equities, subject to the qualification that we have been heavily pointed towards what I would describe as quality and resilient business models and investments. And I think this strategy has served us as well. So, as I said, we do remain risk facing and capture a lot of the momentum in markets as I speak.

Keith Skeoch: Thanks, Rod. And in terms of the revenue yield attached to the stuff that was going off, I think you should use a working assumption that it's the average yield of the strategic investments – sorry, strategic insurance partners business – and you won't be far wrong. I'll go to Stephanie on costs and then perhaps will ask Noel to comment on the outlook for Platforms and Wealth.

Stephanie Bruce: Yes. So think in terms your specific questions about how much should you think about in terms of where is… well VC (variable comp) clearly, you know, sits in this overall cost space, but it's not playing a major part in any of these particular movements that I would draw to your attention.

Keith Skeoch: And Noel, Platforms and Wealth.

Noel Butwell: Yes, thanks. Thanks for the question, Nicholas. In terms of my optimism for growth. Well, I think by looking to the advisory market in particular, we're incredibly well placed with the platforms that we've got. And ultimately, to come through that COVID… we continue to go through the COVID period… it's actually remained quite resilient. And people obviously will continue to outsource, and actually our position in that market is very strong. I think the advice gap still persists and the focus that we're putting on experience to create capacity in that market and meet the advice gap, allowing more adviser firms to give advice to more clients, give us real opportunities for growth going forward.

I think the second area that Keith referenced earlier in the presentation around increased digitisation, obviously more people will be needing to take more responsibility for their own financial affairs, and our digital response to that, both in terms of our Digital Retirement Advice but also Choices app, our open banking proposition linked to savings, which is in beta testing, again, gives us real opportunities to grow in that space as well.

Keith Skeoch: Great, thanks, Noel.

Nicholas Herman: Thanks very much. Very helpful.

Chris Turner, Berenberg: Yeah, good morning, everyone, it's Chris Turner from Berenberg. I think that the danger that we run into other calls, so I will just ask one brief question, if I may. Big picture, you've done a very good job of slowing the redemptions from your funds, but your gross sales still remain something of a problem. I'm looking at the figures here: 16% annualised gross sales into equity funds, 9% annualised sales into private markets products, 17% annualised sales at MyFolio, and so on.

What is the kind of the common headwind you face across the board here? Is it the wrong products or the product positioning? Is it access to the right distribution channels, or is it just purely poor performance? Definitely somewhat cyclical. Can you share your thoughts on really why you would struggle to accelerate your gross sales? Thank you.

Keith Skeoch: Yeah, I'll just give a couple of high-level comments and then pass across to Campbell.

So, you know, I think everybody's gross flows are slow at the moment as a result of the COVID pandemic. And associated with that, I think is an underlying change in client strategic asset mix, where there has been a kind of move to safety. At a high level, I would point out that I don't think we do have a structural problem. When you look at the new funds that we've launched since the merger, we've seen about £14bn of inflow within three years. Normally, I talk about that product cycle being longer than people think and anything up to six or seven years. So actually, I think that's good progress. Historically, it was a performance issue and performance is turning, as you can see in the consultant rankings. But, Campbell, anything I've missed out?

Campbell Fleming: No, no, Keith. The only thing that I'd add is that March was the worst recorded month in modern history in terms of industry flows with enormous outflows and the like. And I think based on a relative and absolute basis, we – as Keith said – we like to think a little bit more long term about what we're doing. We're trying to create good, sustainable, growing businesses here by keeping close to our clients, working with them to see what they need, and make sure we deliver great products, good performance, and good service to them. So, I think on both a relative and absolute basis, given the circumstances of the last four months or so, it's a pretty respectable outturn. Of course, I would say that. The only other thing I would add is that, you know, if you look at it on a geographic and wholesale and channel basis, we're doing pretty well in the US We're doing pretty well in Europe. We're doing okay, but we can do a lot better, in the UK And we're starting to build a stronger pipeline out of the Asian businesses and also the Middle East. So, we're very diversified by channel, we're very diversified by markets, and we're very diversified by geography. And that is all entirely dependent on investor sentiment and activity in those channels, markets, and those geographies. So, all in all, the momentum is there, the foundations are there, and we hope, with continued performance in keeping close to clients, we can do better than we have done. And that's what we're focusing on.

Chris Turner: Great. Thank you, Campbell.

Hubert Lam, Bank of America: Good morning. First, I'd like to thank Keith and wish him all the best in the future. Three questions. Firstly, on costs. How should we think about cost in the second half of the year? I think Stephanie mentioned that we should expect some normalisation of the COVID costs, the £10m is coming back in the second half. Also, investment costs were relatively low in the first half. And you also mentioned some salary inflation. So just wondering how we should think about second half costs, the second half cost base versus the first half. Second question is on revenue yield - that continues to fall. Some of it is driven by markets obviously. How should we think about the yield outlook to come, assuming markets are roughly stable? Should we expect more pressure coming from outside competition? And lastly, on flows and risk appetite. First half, you saw good inflows into cash products at the expense of, you know, risk assets. Do you expect some of the sentiment to change in the near term? As we know, like, obviously the macro situation remains uncertain, markets are pretty high from where they are today. You know, do we expect clients to kind of catch up to past performance or do you expect clients to still stay on the sidelines? Thank you.

Keith Skeoch: Okay, let's do that in reverse order. So great question. And thank you for your comments, Hubert. As far as flows and risk appetite is concerned, I don't think it's just a question of going straight back to risk on. I think we've got a number of people in large institutions we're talking to around the world about their balance sheet and their strategic asset allocation, and they're thinking about how they generate the mix. So, I think solutions in that space and the combination of private markets capabilities and, you know, one of our real strengths is in credit, where there's yield, and emerging market debt. So I do think you will see a slow return to an appetite. And I think that appetite will be much more increased towards active asset management, because actually one of the things that I think people have found quite difficult is to bear the Beta. And we've opened up a number of conversations.

On the revenue yield, I think you need to distinguish between asset mix, which obviously has an influence, and the revenue yield on those non-insurance books, 39.5 basis points. I think, as we've said previously, because we're not involved in the highly traditional asset classes. So, you know, just pure equity and pure govi (government) fixed income, which is where the heat is coming down. You know, we're, I think, suffering from revenue yield erosion not as badly as colleagues. So, we think that's a slow drift down rather than being some kind of cliff edge. And that actually flows back to… I go back to the point about that pipeline of £14bn of AUM. Actually, the asset management charge on that is about 50 basis points. And that compares with a 39.5 revenue yield. So actually, the real means, as Campbell was suggesting, of protecting that revenue yield strategically is to launch new products where you have performance and you can innovate. Because my sense is clients will still pay for that. Stephanie, back to cost.

Stephanie Bruce: Yes. So in terms of costs for the second half, I have referenced a couple of areas just, I think, to draw it to your attention. Obviously, clearly, we're expecting the particular costs around travel and events, as I said, should we expect some of that to come back in some form. And of course, there I am assuming that we start to get back more to kind of pre-normal conditions, if we get there at all, obviously. And so that's one area just to flag. In terms of the staff inflation cost, that really has to do with paying out additional pay rises and compensation increases from last year - and that will just kind of come through in the full year position. And the other area that I would just highlight in terms of potential inflation is obviously, in terms of the overall (sort of) supplier inflation costs, it's a bit of an unknown yet at this point in time as to how that will then flow through. But we're just really assuming more of the same in that regard. And at the same time, we will continue to work through and be very focused on the financial discipline that I referenced earlier. So I think you should continue to expect us to be decreasing our cost base, absolutely. But I think there are some moving parts that will potentially increase some of those costs in the second half, as I've outlined.

Keith Skeoch: Thank you, Stephanie. Operator, I'm very mindful of time. So there's potentially scope for one last question. And then I know Sir Douglas Flint wants to say a few words.

Gordon Aitken, Royal Bank of Canada: Yeah, thanks. Hi, Keith. So got a couple of questions. First on the HDFC Life and Asset Management JVs, just maybe let us know why you have sold down. I know there was always an intention to list a slice, but the continued selling, is it part of an arrangement you've always had with HDFC? And the second one, on this revenue yield point, where do you think the yield is going to settle? Been on the slide for a while for, you know, for everyone in the industry. But there's huge structural shifts going on in asset management that we seem to have been talking about for 20 years plus. And I mean, ESG, is that something that can offset the slide?

And if I can just add my congratulations on a great career for you at Standard Life. Personally, I really enjoyed working with you. You mentioned the IPO back in 2006, and I joined just before that. Back then you headed the asset management business, and the first set of results I put together asset management was just 10% of the earnings of the group. So it just shows how much you've grown that business. And GARS was created under you and a hugely profitable product for Standard Life. And also the Indian JVs, I know personally you saw the value very early on in those businesses. We're all very sorry you're leaving, but all the best for the future.

Keith Skeoch: Thank you, Gordon. That's very kind. Let me do the revenue yield first and be absolutely honest and say I've got no idea where that's going to settle. But I really don't think there is a cliff edge, and I do believe, you know, if we continue to build on these strong foundations, and yes, I think ESG is an important part of that actually – you know, it's the old comment about Wayne Gretzky who said, "I don't follow the puck. I go to where the puck is going to be." And I think that's what you need to do with clients and that's where you need to invest in the business. And that's what we're continuing to do.

On HDFC Life, I think it wasn't part of the deal. But obviously, as you know, Gordon, we've been on this long-term journey to shift from being, you know, a capital-intensive life and pensions business to being a capital light asset manager. And actually, once it was clear that we had achieved that and moved into CRD IV, you know, the assets we held on our balance sheet need to reflect our core business model. So, the sell down in Life is just a reflection that actually, it's no longer part of our core business. I think it's a great – it's a great business. And I think it's got a brilliant, long-term future because it's the quality end of Indian Life. And the management team there are fantastic and so is the HDFC brand, but actually, it's just no longer aligned, I think, to our future. So I'm sure that sell-down will continue.

Slightly different on the asset management side. We always said that we would IPO, and there was always an agreement, and it was formalised recently that, when we IPO'd, we would play our part in facilitating the minimum public shareholding, which we actually did with the recent sale. That leaves us with a 20% holding, two directors on the board, and promoter status in India, in what I think of as, for the long term, one of the most exciting asset management markets in the world. And in that sense, you know, as we've said, that is a strategic, long-term holding. So thank you all for your comments. And we'll now handover to Sir Douglas Flint.

Douglas Flint: Keith, thanks. Thanks very much. As Keith said at the opening of his remarks, this will be, and actually now has been, his final appearance on the platform, presenting the results of Standard Life Aberdeen and, before that, Standard Life. I know Keith will have been very touched with the warmth of some of the personal comments that have been made on the call. But I simply wanted to take this last public opportunity, on behalf of his colleagues, the board, and fellow shareholders, to express our sincere gratitude for his commitment and service over 14 years as a director, the last five as CEO or co-CEO, and in particular, his leadership during the last six months, encompassing the period of the pandemic, has been decisive and empathetic. And he leaves the firm in great shape for his successor, having built solid foundations in terms of financial strength, corporate culture, a real sense of purpose, and a highly talented team of colleagues who are ambitious for success. So, on behalf of us all, Keith, thank you. Thank you very much.

Keith Skeoch: Douglas, thank you, and thank you to everybody on the call. I'm not going to say goodbye, but I will say au revoir, auf wiedersehen, ciao. Thank you.