

Standard Life Aberdeen

Inside Track Series

November 2018

“New active” investment innovation

Robert Mckillop, Head of Global Product

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.

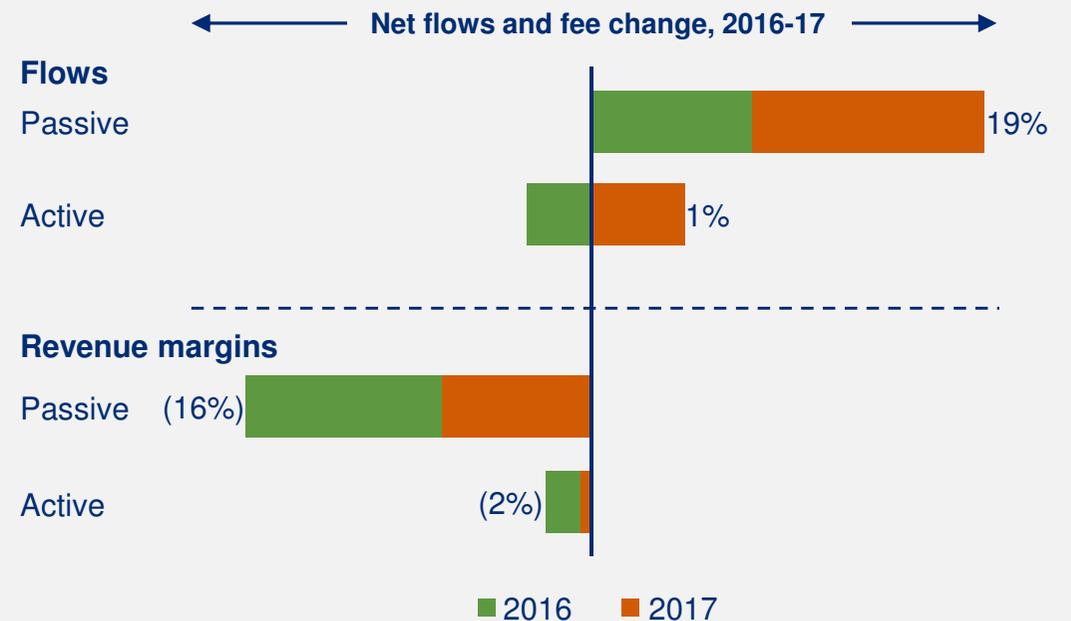
Industry is experiencing fee compression driven by increasing scale and passives

However decline in active revenue margins is slower than in passives

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



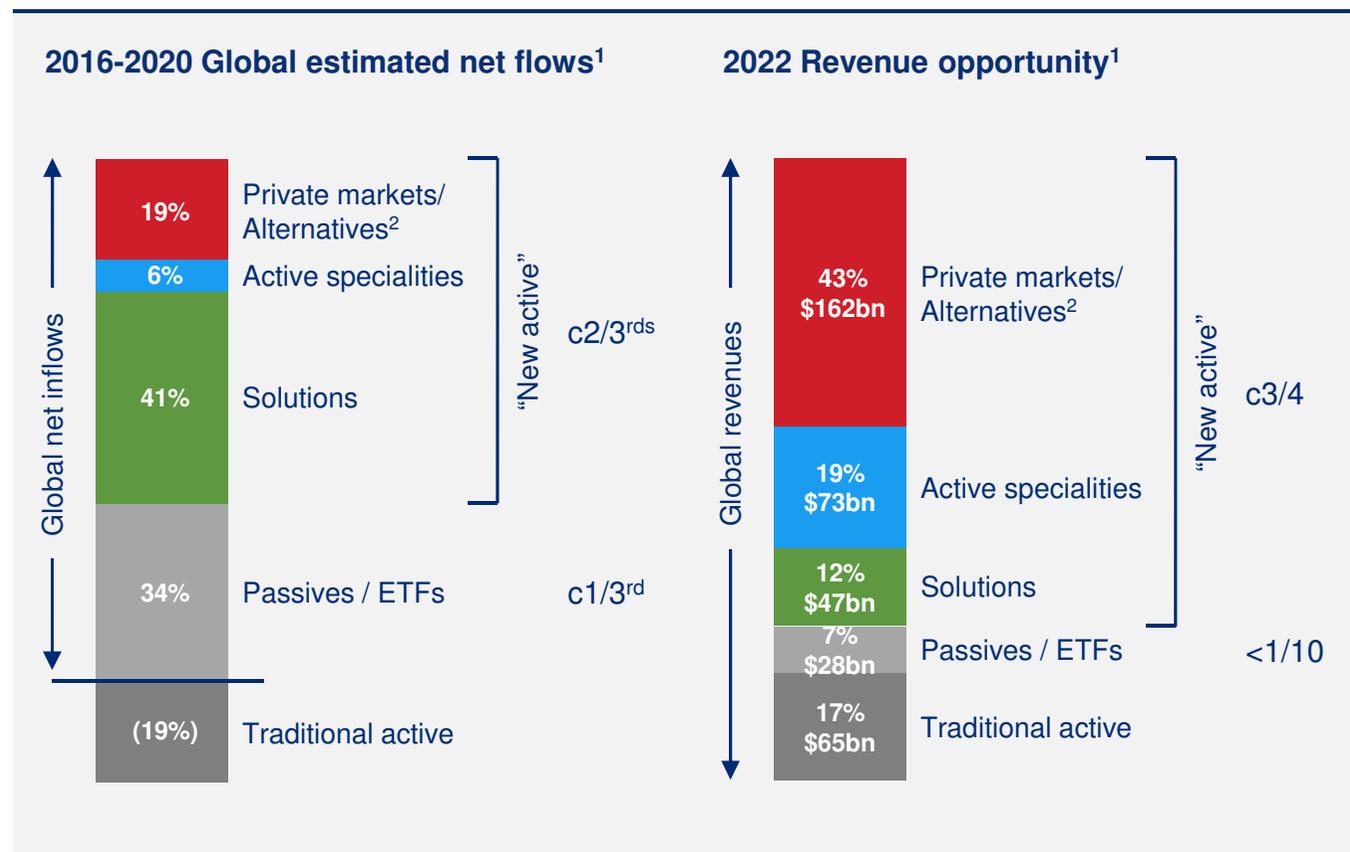
... but decline in active revenue margins is slower than in passives²



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

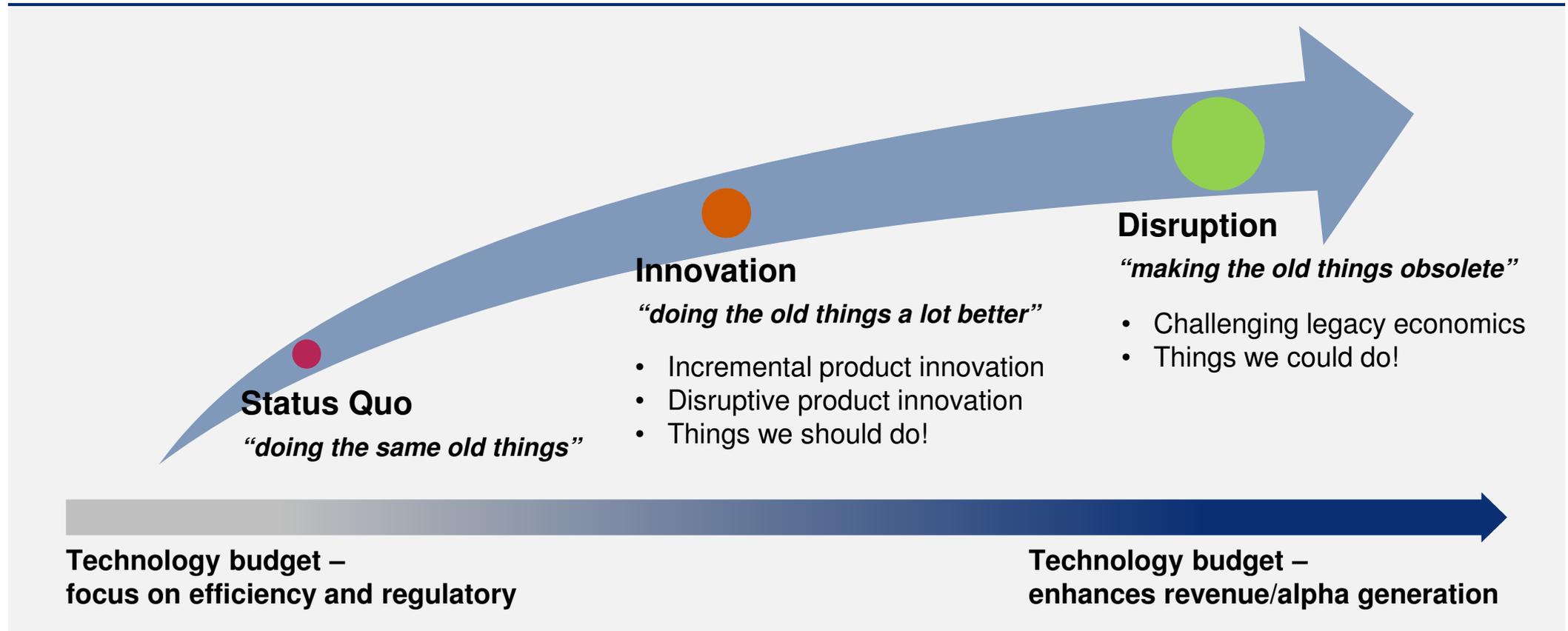
- ESG and Impact
- Thematic
- Physical assets
- Data driven
- Simplicity

Service Expectations

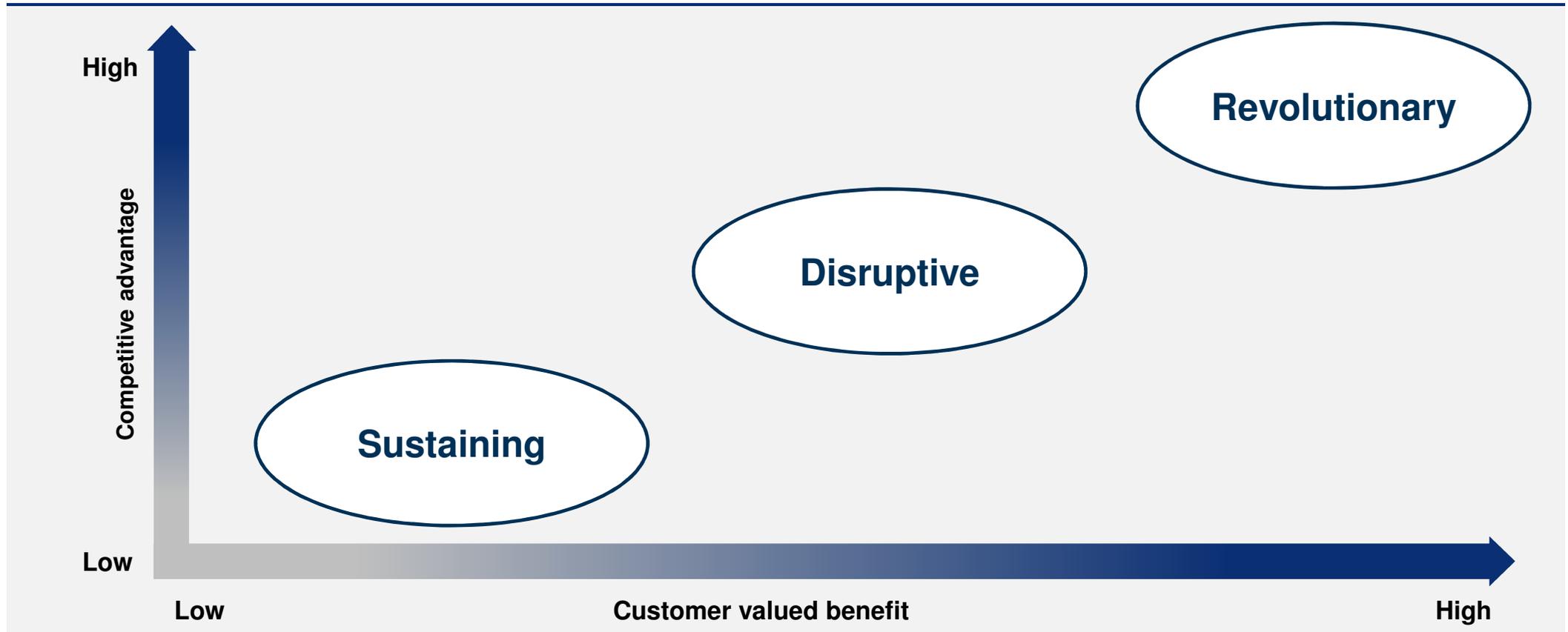
- Targeted/Bespoke
- Frictionless transactions
- On-demand reporting
- Advice, guidance, education
- Pricing transparency

A spectrum of potential responses

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

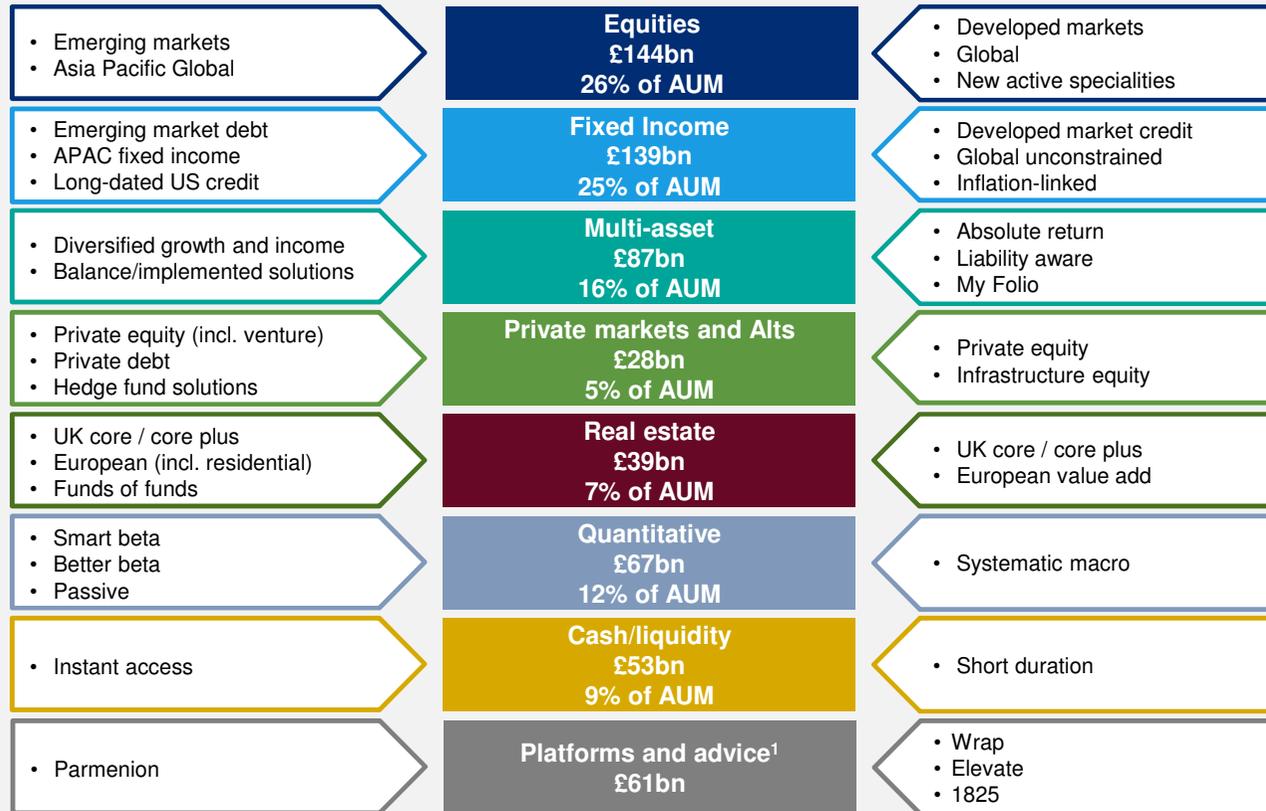


Innovation comes in different shapes and sizes ...
... and it doesn't always have to be revolutionary



Broad and compelling range of capabilities enhanced by our merger

Complementary areas of scale and franchise strength



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

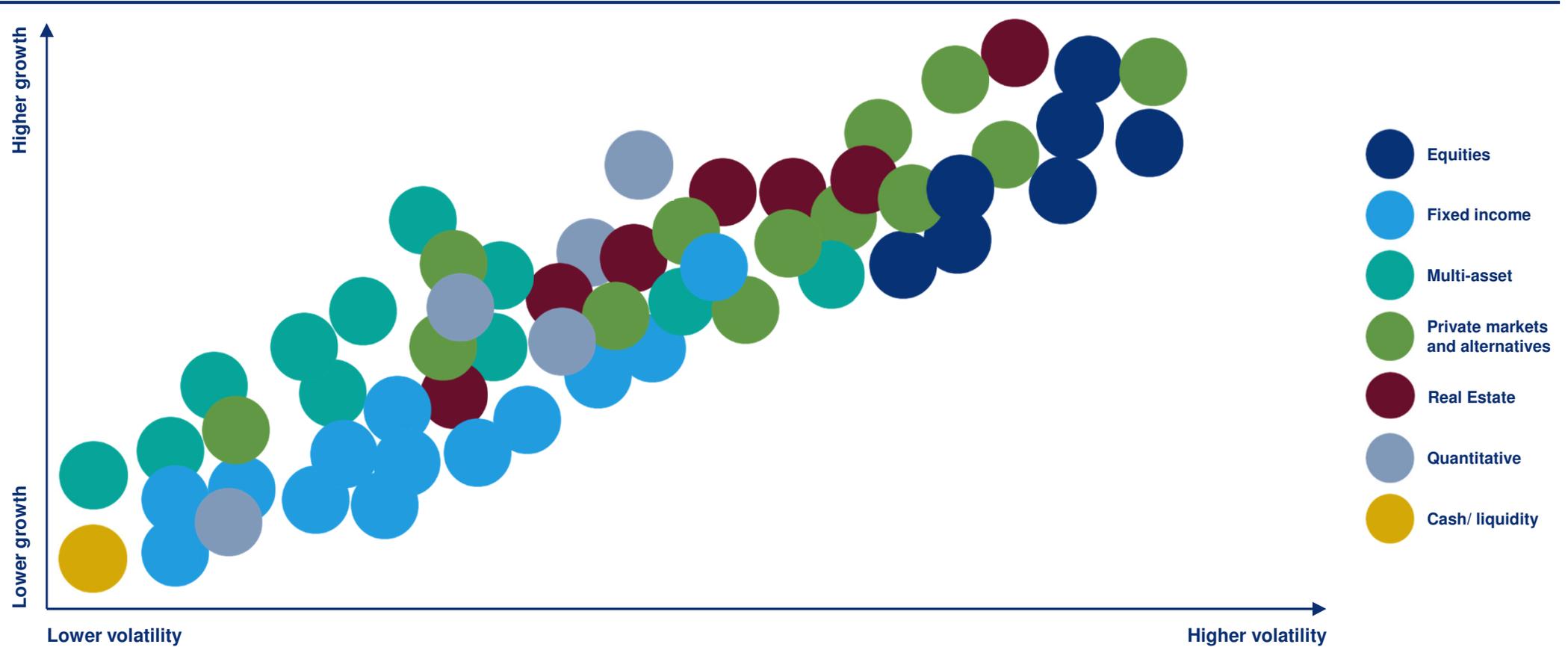
Pre-2010 capabilities



Conceptual view of our investment capabilities.

Evolving the breadth and depth of investment capabilities

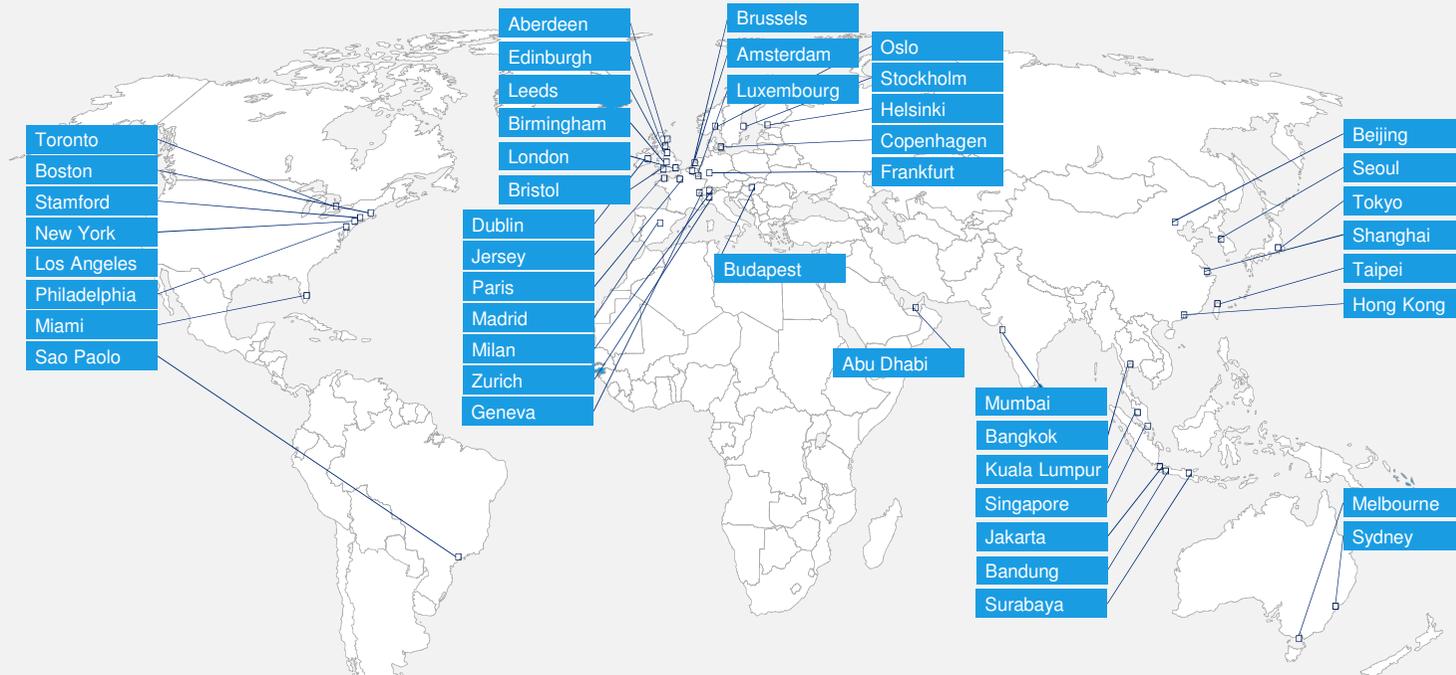
Current capabilities



Conceptual view of our investment capabilities.

Building a strong platform to compete globally

Proximity to clients is increasingly key



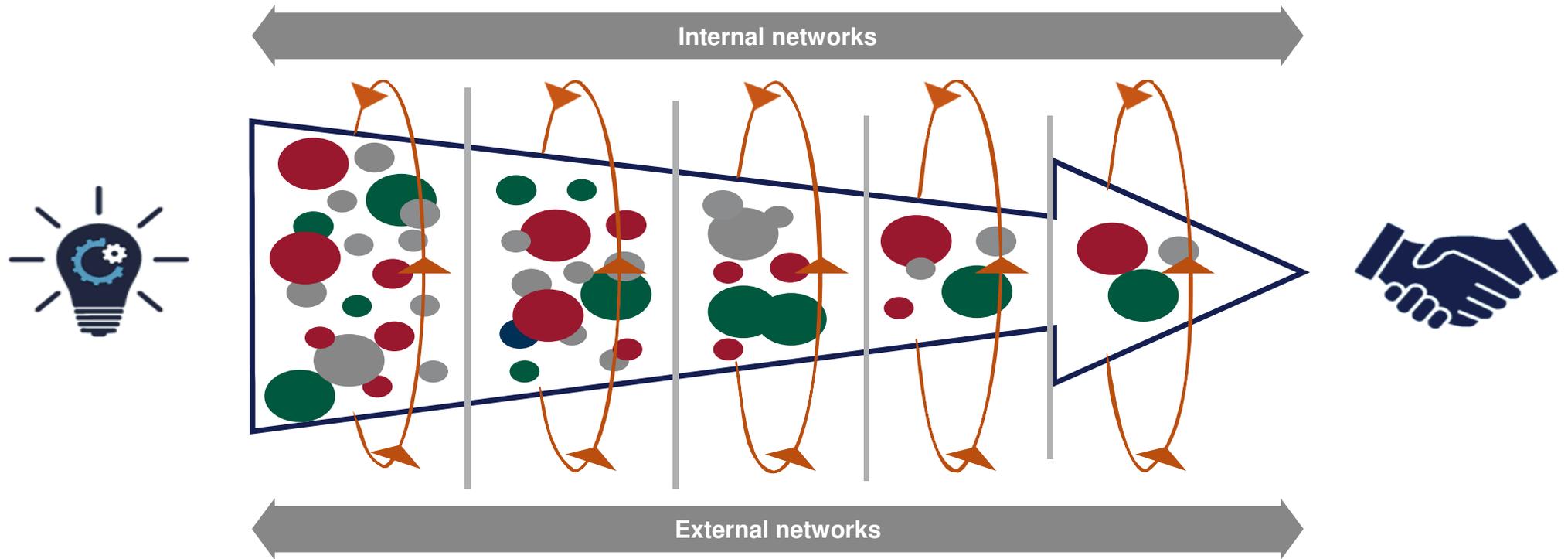
Global Coverage:
46 unique distribution locations

Global Clients:
Clients in over 80 countries

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

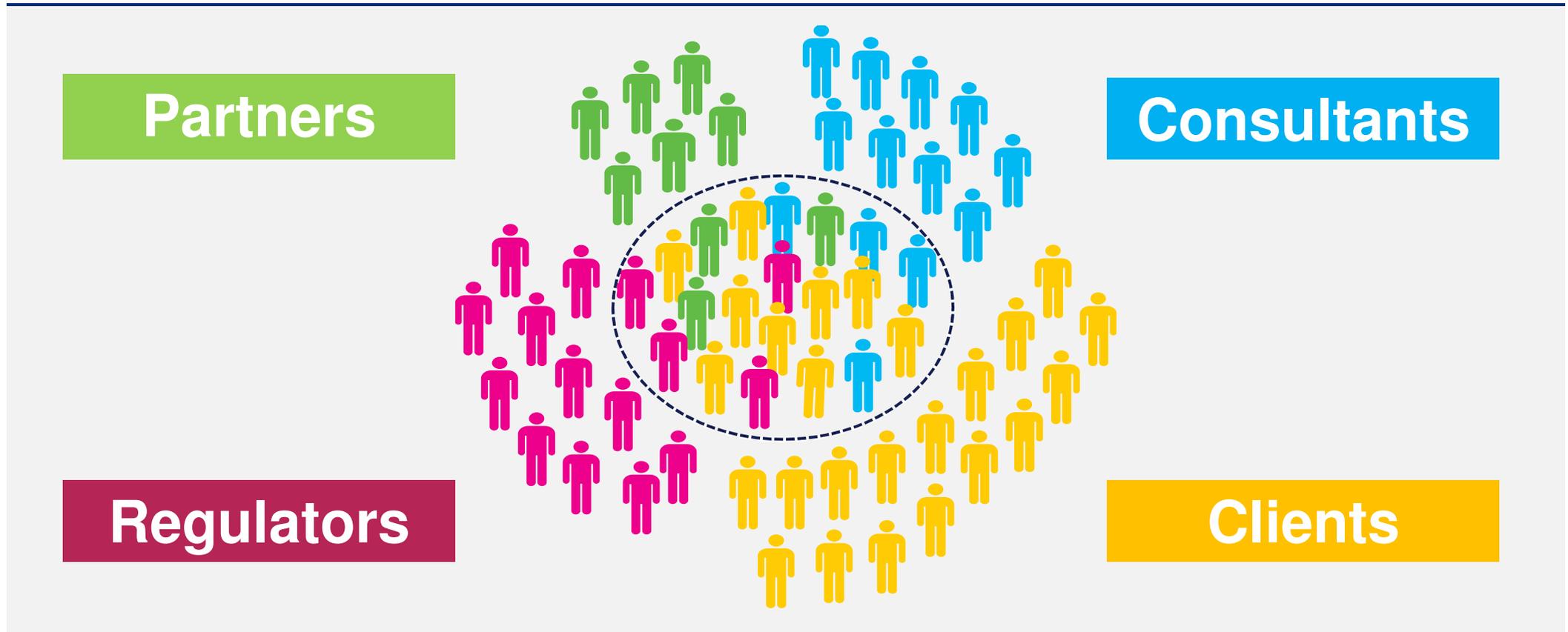
A connected approach to innovation in asset management

The importance of networks



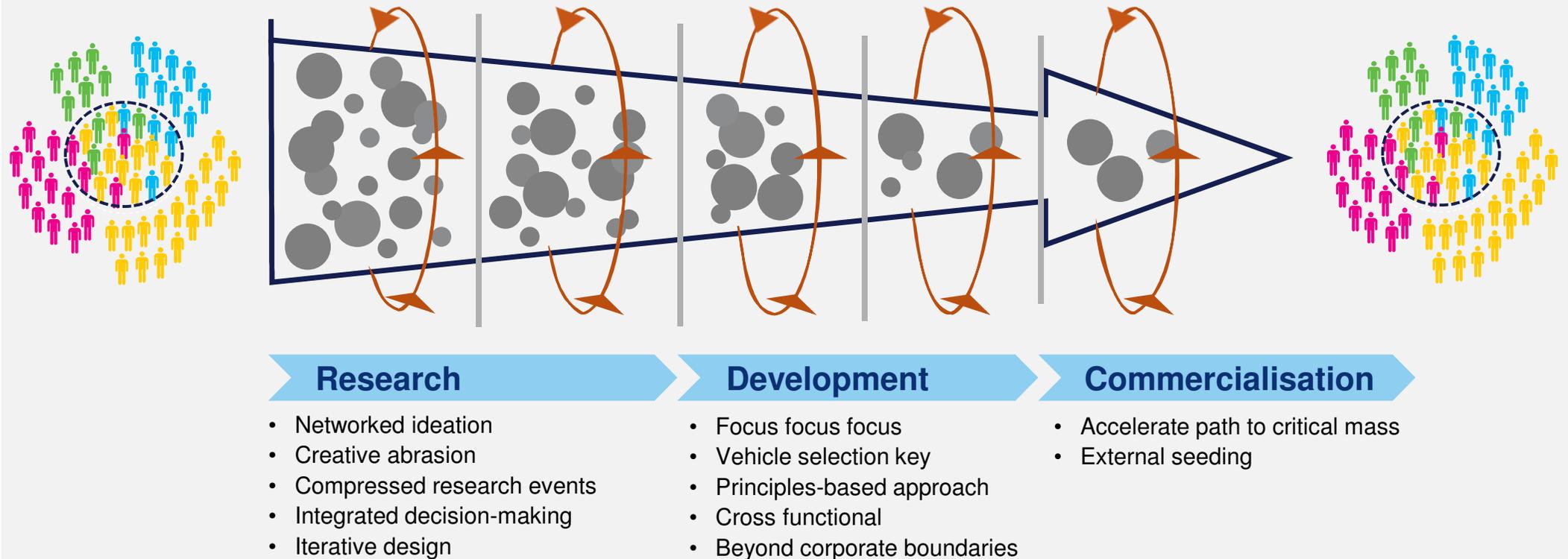
A connected approach to innovation in asset management

Creating innovation networks with key stakeholders



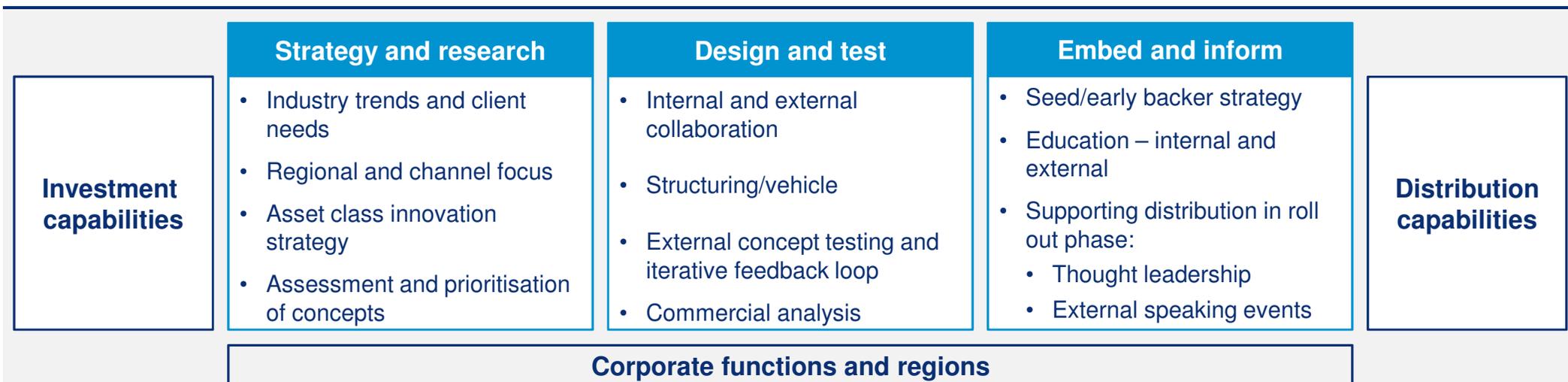
A connected approach to innovation in asset management

Enhancing flow and margin



Disruptive innovation through knowledge and collaboration

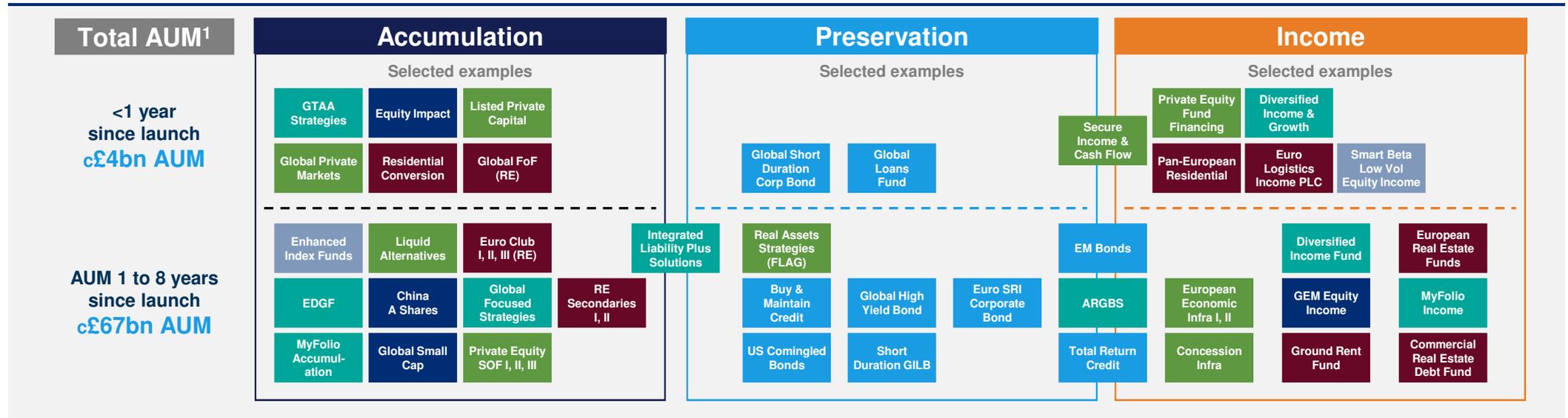
Well resourced and talented Global Product team with proximity to clients



- Talented Global Product team of over 60 professionals
- Product Strategy team – connecting and facilitating across networks driving ideation
- Broad innovation hub consisting of Global Product, Platform Proposition and Digital Advice teams (circa 130 FTE)
- Regional presence key in capturing local client/regulatory insight
- Integrated approach enhances outcomes and increases speed to market

Attracting in excess of £70 billion of AUM since 2010

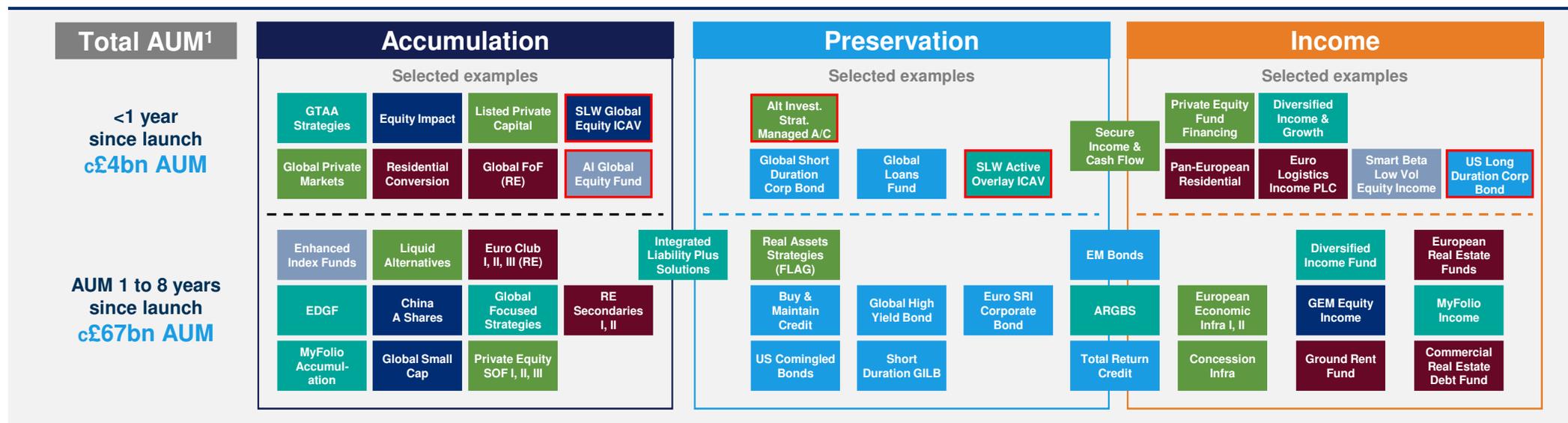
Representing c25% of non-insurance AUM



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.

This presentation may contain certain “forward-looking statements” with respect to the financial condition, performance, results, strategy, objectives, plans, goals and expectations of Standard Life Aberdeen plc (“Standard Life Aberdeen”) and its affiliates. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements are prospective in nature and are not based on historical facts, but rather on current expectations and projections of the management of Standard Life Aberdeen about future events, and are therefore subject to risks and uncertainties which could cause actual results to differ materially from the future results expressed or implied by the forward-looking statements. For example, statements containing words such as “may”, “will”, “should”, “could”, “continue”, “aims”, “estimates”, “projects”, “believes”, “intends”, “expects”, “hopes”, “plans”, “pursues”, “seeks”, “targets” and “anticipates”, and words of similar meaning, may be forward-looking. These statements are based on assumptions and assessments made by Standard Life Aberdeen in light of its experience and its perception of historical trends, current conditions, future developments and other factors it believes appropriate. By their nature, all forward-looking statements involve risk and uncertainty because they are based on information available at the time they are made, including current expectations and assumptions, and relate to future events and depend on circumstances which may be or are beyond Standard Life Aberdeen’s control, including among other things: UK domestic and global political, economic and business conditions (such as the United Kingdom’s exit from the European Union); market related risks such as fluctuations in interest rates and exchange rates, and the performance of financial markets generally; the impact of inflation and deflation; experience in particular with regard to mortality and morbidity trends, lapse rates and policy renewal rates; the impact of competition; the timing, impact and other uncertainties associated with future acquisitions, disposals or combinations undertaken by Standard Life Aberdeen or its affiliates and/or within relevant industries; the value of and earnings from Standard Life Aberdeen’s strategic investments and ongoing commercial relationships (including the value of and earnings from the enhanced strategic partnership between Standard Life Aberdeen and Phoenix); default by counterparties; information technology or data security breaches; natural or man-made catastrophic events; the failure to attract or retain necessary key personnel; the policies and actions of regulatory authorities; and the impact of changes in capital, solvency or accounting standards, and tax and other legislation and regulations (including changes to the regulatory capital requirements that Standard Life Aberdeen is subject to) in the jurisdictions in which Standard Life Aberdeen and its affiliates operate. These may for example result in changes to assumptions used for determining results of operations or re-estimations of reserves for future policy benefits. As a result, Standard Life Aberdeen’s actual future financial condition, performance and results may differ materially from the plans, goals, objectives and expectations set forth in the forward-looking statements. Persons receiving this presentation should not place undue reliance on forward-looking statements. Neither Standard Life Aberdeen nor its affiliates assume any obligation to update or correct any of the forward-looking statements contained in this presentation or any other forward-looking statements it or they may make (whether as a result of new information, future events or otherwise), except as required by law. Past performance is not an indicator of future results and the results of Standard Life Aberdeen and its affiliates in this presentation may not be indicative of, and are not an estimate, forecast or projection of, Standard Life Aberdeen’s or its affiliates’ future results.

Unless otherwise stated, all figures in this presentation are on a continuing operations basis and 2017 comparatives are provided on a pro forma basis as if Standard Life Group and Aberdeen had always been merged.

Standard Life Aberdeen plc is registered in Scotland (SC286832) at 1 George Street, Edinburgh EH2 2LL.

www.standardlifeaberdeen.com © 2018 Standard Life Aberdeen. All rights reserved.