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## Driving Value Through Strategic Shareholdings

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## What you are going to learn today

- Overview of Standard Life Aberdeen and our Shareholdings
- Role of Strategic Shareholding Team
- Strategic Shareholding Framework
- A UK Perspective on China
- Questions



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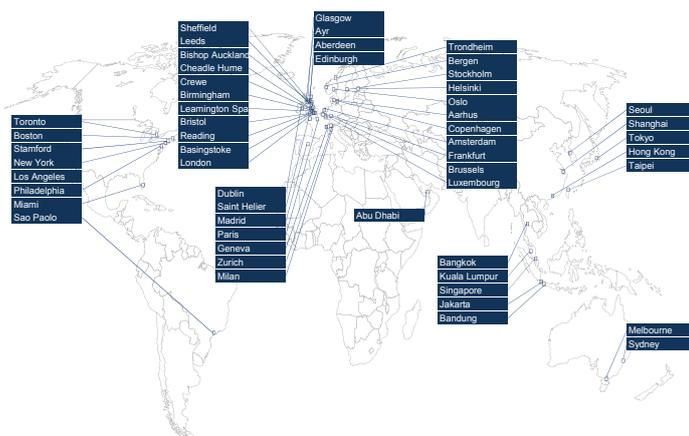
## Standard Life Aberdeen: Creating a world-class investment company

Global	Diversified	Close to clients	Strong balance sheet	Shareholder value
Global investment coverage and distribution reach	Breadth of investment capabilities to meet changing client needs	Close to customers – unique UK savings eco-system – and clients in 80 countries	Providing resilience and funding investment in innovation, technology and our people	Focused on efficiency, maximising value and sustainable returns to shareholders

Creating a world-class investment company and leading provider of investment savings in key markets, serving our clients and customers across investment management, platforms and advice



## Strong platform to compete globally



**Global AUM:** £550bn AUM  
£75bn gross inflows in 2018

**Global Coverage and Clients:**  
Clients in around 80 countries  
54 unique operating locations  
500 global client specialists

**Strategic partners:**  
Mitsubishi UFJ, LBG, HDFC, TEDA, Sumitomo Mitsui, Phoenix Group, John Hancock, Manulife, Bosera, Challenger, Virgin Money



## One of the strongest balance sheets in the industry

### With substantial listed investments and strong net cash resources

- Strong capital position and £1.2bn<sup>1</sup> of net cash/liquid resources to support investment in the business
- Strategic listed investment in Phoenix worth £1.0bn<sup>2</sup>:
  - 19.9% stake
  - Source of earnings and dividends as well as current and future AUM
  - Already benefiting from closer collaboration – £3.6bn (£2.5bn in 2018) of £7bn originally identified now transferred
- Indian listed investments worth £3.0bn<sup>2</sup>:
  - 29.9% stake in HDFC AMC worth £1.0bn<sup>2</sup> following successful IPO from which we also received c£180m
  - 24.7% stake in HDFC Life worth £2.0bn<sup>2</sup> after the sale of 4.93% of HDFC Life announced on 11 March 2019

### Continued strong source of value for shareholders as we reshape the business

#### Notes

All figures are stated on a continuing operations basis.

1. Cash/liquid resources from across the group adjusted for the impact of the proposed 2018 final dividend, less nominal value of debt of £1.1bn.

2. Valuation as at 11 March 2019. Value of stakes in Indian listed investments calculated using an exchange rate of R93.0070/£1.

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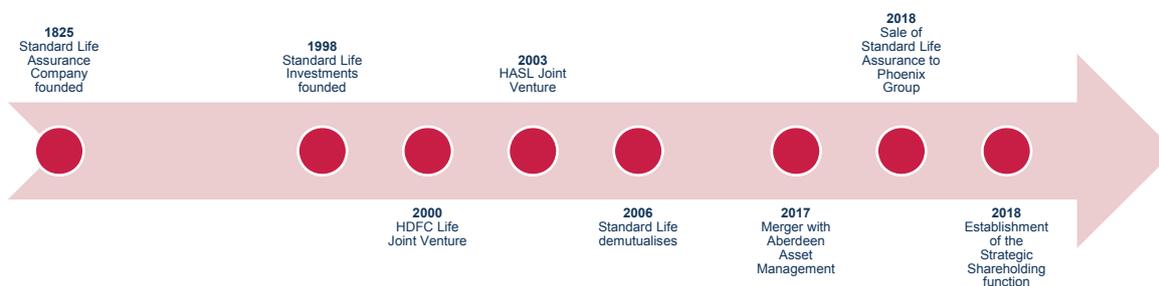


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## Standard Life Aberdeen history



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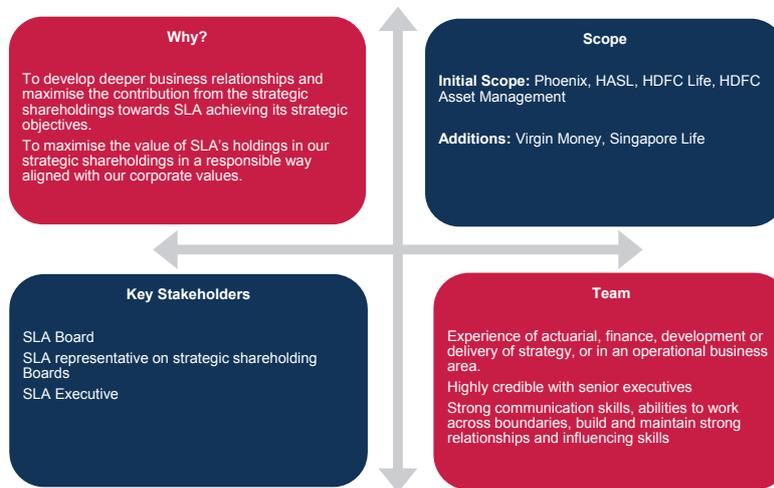


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## Strategic Shareholdings: Objectives



## Strategic Shareholdings: Role

Maximise the value of SLA's holdings in our material strategic shareholdings in a responsible way aligned with our corporate values



## Strategic Shareholdings: Role

Develop deeper business relationships and maximise the contribution from the strategic shareholdings towards SLA achieving its strategic objectives, generating attractive returns for SLA through meeting client and customer needs

Ensure strategic objectives in relation to shareholdings and key enablers are clear	Ensure Board informed and agree with our strategic objectives from our strategic shareholdings	Ensure targets exist for strategic objectives, and that progress is measured and reported	Identify opportunities where strategic shareholding has expertise or knowledge that can help SLA achieve its strategic objectives
Ensure appropriate lobbying takes place to support SLA's strategic objectives from the shareholding	Establish close working relationships with others who interact with strategic shareholdings	Ensure that key decisions consider potential impact on relationship with strategic shareholdings	Ensure that responsibilities, timescales and benefits are clear for actions that help deliver strategic objectives

## Strategic Shareholdings Definition

### Definition

A strategic shareholding is a material shareholding in a company where:

(a) we leverage the relationship over the long-term to help SLA achieve our strategic objectives

or

(b) the shareholding is the only mechanism to access a market that is key to achieving our strategic objectives

### Rationale and Implications

- Some shareholdings will have been acquired at a time when our strategic objectives were different. Those holdings will still need appropriate oversight to help us maximise the value of our investment.
- Some shares may have been acquired for tactical rather than strategic reasons, so do not fall within the definition.

## Strategic Shareholdings

### Principles to Apply in Managing these Shareholdings

#### Principles for Strategic Shareholdings

- Be prepared to accept some restrictions on trading ability in order to have access to confidential information that we can use to influence success
- Potential exit strategies should be understood
- The investment should be viewed and managed to maximise its long-term value to SLA shareholders over a defined time period
- Actively look for opportunities to leverage the strength of the relationship to assist SLA in achieving its strategic objectives
- Actively apply our knowledge and expertise to assist the company in achieving its strategic objectives
- Progress towards achieving our objectives from the relationship and our investment should be actively monitored and reported

## Strategic Shareholding Framework



## Levers for Creating Value

More levers exist for non-listed companies and for less developed companies

Influence via Board representatives at Board meetings

- Review Board papers
- Review market environment
- Briefing packs prepared for Board representatives
- Need to manage conflicts

• Apply shareholder votes at AGMs

- Change intervention initiatives to support growth or reduce risk of capital injections
- Joint initiatives to support SLA or shareholding strategic objectives

## Capital, Capital, Capital

Strategic Shareholdings are long term investments BUT...

Management of strategic shareholdings needs to be done in the context of overall capital management objectives of SLA

- Need to generate return on capital
- Need to consider alternative demands for capital

Be clear about constraints on when can sell shares

- Restrictions from IPOs in India
- Restrictions in agreements signed at times of deal
- Liquidity Considerations
- Impact on Board representation and influence

Remember loss of opportunity

## Standard Life Aberdeen in China

- SLA Plc has a growing presence in Greater China, with offices in several mainland provinces as well as in Hong Kong and Taiwan
- Heng An Standard Life (HASL) is a life insurer owned 50% by SLA and based in Tianjin, China. It was formed in 2003 as a joint venture between Standard Life plc and Tianjin TEDA (a state-owned enterprise). It offers a comprehensive suite of health, life and savings products.



- HASL head office in Tianjin
- HASL branches and sales offices in 10 branches across 8 provinces and over 80 cities
- ASI WOFE in Shanghai
- ASI office in Hong Kong

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## UK Perspective on China

### Asset Liability Modelling and Asset Strategy

China

- Long-term guarantees on conventional with-profits business
- Assets duration shorter than liabilities

UK

- Stochastic modelling techniques with dynamic bonus rate assumptions to value the guarantees
- Individual Capital Assessment in UK (2004) and Solvency II in Europe (2016)
- Derivatives to match assets and liabilities and protect balance sheet from falls in interest rates
- Reductions in equity backing ratios for with-profits products
- Duration mis-matches significantly reduced and extensive use of cashflow matching for annuities
- Demand for illiquid fixed interest assets to back annuities
- Companies moving from meeting regulatory needs to global best practice

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## UK Perspective on China

### Product Strategy

#### China

- High guarantees
- Many companies are running with an expense overrun
- Competitive pressures - reluctance to reduce bonus rates
- Pensions less developed

#### UK

- Significant reduction in guarantee levels in low interest rate environment
- Closure to new business. Focus on cost efficiencies and scale of business
- Move away from with-profits business to unit-linked business - capital efficiency
- Loss of customer trust in with-profits business
- Move to defined contribution pension schemes

## UK Perspective on China

### Customer Focus

#### China

- Regulation around prudential balance sheet and management of prudential risks
- Focus on developing products
- Products often launched that sell little volume; do these meet customer needs?

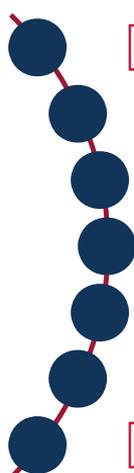
#### UK

- Regulator set up to protect consumers, enhance market integrity, and promote competition (Financial Conduct Authority)
- Focus on conduct risk and demonstrating that products meet customer needs
- Development of customer solutions, not products
- Focus on delivery of value for money to customers
- Regulatory focus on charge levels: reduced charges, maximum charges, charge transparency
- Ban on advisor commission
- Treating customers fairly: pre and post sale, long-standing customers
- Focus on cost efficiencies supported by digital technologies

## SLA: A UK Shareholder in China

- Need to be prepared to accept that the Chinese market is different from the UK , write products that would be reluctant to write in the UK and avoid imposing UK approaches without understanding the Chinese environment
- Have used lessons from the UK to help HASL develop its strategy
  - May have slowed growth in short-term but will help maximise long-term value
  - Has set HASL up for long-term success
  - Steady growth in profits since launch
  - Strong relationship with regulator
- Have used UK Risk Management experience to help HASL develop its ERM Framework and Product Supervision Policy
- Use significant expertise and experience in UK pensions to help HASL develop its pensions insurance company
- Need to carefully manage and control capital injections; balance sheet projections and monitoring crucial
- Place careful volume limits on products that don't think sustainable and monitor closely

## What have we learned?



It is important to establish trust and be consistent

We need to be aware of and allow for cultural differences

Language barriers present significant challenges

Always ensure that the key actions we want progressed are recorded at Board meetings

Don't underestimate the importance of relationships with our JV partner

We will never understand the market place the way the local's do

We need to have clarity of SLA strategy and recognise that it may differ from HASL's strategy

## Unanswered Questions

(When) will it become easier to use more sophisticated derivatives to help manage the balance sheet?

(When) will the focus increase on demonstrating value of money to customers?

(When) will companies that write unsustainable business close to new business or be taken over by consolidators?

When and what will the UK learn from China (Fintech)?

Will China move away from with-profits business?

(When) will the focus move to developing customer solutions?

(When) will guarantee levels on with-profits business reduce?

Can distribution mechanisms and skills of sales force support targeted expansion?

Questions

Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.