

Our Insurance Capabilities

**Standard Life
Investments**

August 2016

This document is intended for institutional investors and investment professionals only and should not be distributed to or relied upon by retail clients.

About Standard Life Investments

Standard Life Investments is a leading asset manager with an expanding global reach. Our wide range of investment solutions is backed by our distinctive *Focus on Change* investment philosophy, disciplined risk management and shared commitment to a culture of investment excellence.

As active managers, we place significant emphasis on rigorous research and a strong collaborative ethos. We constantly think ahead and strive to anticipate change before it happens, ensuring that our clients can look to the future with confidence.

As of 30 June 2016, Standard Life Investments managed £269.0 billion* on behalf of clients worldwide. Our investment capabilities span equities, fixed income, real estate, liquidity, private equity, multi-asset solutions, fund-of-funds and absolute return strategies.

Headquartered in Edinburgh, Standard Life Investments employs more than 1,500 talented individuals. We maintain a presence in over 20 locations across Europe, North America, Asia and Australia. In addition, we have close relationships with leading domestic players in Asia, including HDFC Asset Management in India and Sumitomo Mitsui Trust Bank in Japan.

Our parent, Standard Life plc, was established in 1825. A leading provider of long-term savings and investments, Standard Life went public on the London Stock Exchange in 2006 and is now a FTSE 100-listed company. Standard Life

Investments launched as a separate company in 1998. We have quickly established a reputation for innovation in pursuit of our clients' investment objectives.

*US\$359.6 billion, €323.6 billion, AUD\$483.0 billion, CAD\$467.1 billion, exchange rates used are US dollar = 1.336800, euro = 1.203295, Australian dollar = 1.795327, Canadian dollar = 1.736102, as at 30 June 2016

Insurance assets

The insurance sector is very important to Standard Life Investments and we currently manage insurance assets worth £148.0 billion, as at 30 June 2016. This includes the management of £93.6 billion for our parent company Standard Life. In addition, we manage £54.4 billion for a wide range of insurance clients across the UK, US, Europe and Asia.

As a result, we have significant experience of working with insurance companies and helping meet their investment objectives. We also have a track record of working with clients to develop innovative solutions that enhance their risk-return profile.

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Introducing our insurance capabilities

At Standard Life Investments, we understand the challenges currently facing insurance companies across the globe. Changes in regulation and an extremely difficult economic environment have put pressure on insurers' capital, solvency and reporting requirements. At the same time, there is a need to generate sufficient returns that meet their obligations and promises made to policyholders. This is increasingly difficult in an environment of low interest rates and volatile financial markets. As a result, many insurers are looking for an experienced, insurance-literate asset manager with the operational infrastructure to provide a range of investment solutions that are both capital efficient and can generate yield.

History and heritage

We have a long history of managing insurance assets, both on behalf of our parent company Standard Life Group and for over 70 third-party insurance investors around the world. This heritage means we have experience in meeting regulatory requirements including extensive asset and risk reporting.

We also have experience of managing with-profits assets, helping Standard Life Group maximise returns while effectively hedging guarantees, and optimally managing risk and capital requirements. Similarly, we have significant experience managing annuity portfolios, including developing new asset class capabilities that allow annuity providers to optimise risk-adjusted returns.

Comprehensive investment solutions

To meet the evolving needs of insurers, we have developed capabilities across a broad range of asset classes. These include investments that offer significant diversification and capital-efficient qualities across absolute return, emerging market debt, high yield and money markets. Similarly, we have an extensive range of private market assets, including commercial real estate lending, infrastructure debt and equity, and private equity that allow insurers to access the illiquidity premiums available. In addition, we can offer bespoke liability-aware solutions where appropriate, and assume fiduciary responsibilities for investors who would like to outsource investment decisions.

In managing these investments, we have built a strong track record, with 95% of our third-party assets above benchmark over three years (as at 31 December 2015). This performance is possible through the dedication and expertise of our investment teams, which total over 600 global investment professionals with an average of 17 years' industry experience. In addition, our professionals have been with Standard Life Investments for an average of eight years and we enjoy a low turnover ratio compared to the industry.

Dedicated to insurers

Our investors can also count on support from our dedicated insurance solutions team, which manages relationships with both our internal and external insurance clients. The team contains commercial actuaries that have significant experience within the investment industry and detailed knowledge of regulation, risk and actuarial matters. As a result, members of the team sit on a variety of insurance industry working groups and can provide clients with extensive support and industry insight. We also have a wider team of experienced investment professionals and actuaries throughout the business whom we can call on as appropriate.

Supporting the insurance sector

Standard Life Investments is committed to providing your organisation with a professional level of service for the long term. To achieve this, we offer industry insight and insurance expertise, asset and risk reporting, as well as a personal client service.

Dedicated insurance team

We have a dedicated insurance solutions team that focuses on managing relationships and developing innovative asset solutions with our insurance clients. The team comprises four experienced insurance actuaries possessing in-depth insurance expertise and knowledge including non-life insurance markets. As a result, they are ideally placed to support our relationships with clients through the provision of value-added support and industry insight.



Stephen Acheson is a Board Executive Director at Standard Life Investments, responsible for insurance solutions and for managing relationships with Standard Life Group and Phoenix.



Bruce Porteous was previously Head of Solvency II and Regulatory Development at Standard Life Group and Chair of the ABI Solvency II Committee. He is closely involved in the development of Solvency II and has broad risk, capital management and corporate experience across international financial services markets.



Craig Turnbull joined the team from Moody's, where he was a managing director and part of the highly successful Barrie and Hibbert business.



Iain Forrester brings substantial insurance and Solvency II experience from his time spent within Standard Life Group where he was Head of Asset-Liability Management for its UK and European business.

Asset and risk reporting

We understand that the ability to provide extensive and timely reports is vital in the new regulatory environment. As a result, we have developed a range of reporting capabilities including:

- ▶ risk and performance attribution
- ▶ fund and investment reporting
- ▶ asset data reporting.

In addition, we can provide fund accounting and valuation services, as well as transaction processing, trade management, asset servicing and unit pricing. As part of the Solvency II requirements, we provide full line-by-line asset reporting by working day five for our pooled fund insurance clients using the industry-standard Tripartite Template. EY has signed off our Solvency II asset reporting processes as fit for purpose and we can also provide clients with a Data Dictionary glossary.

Internal ratings process

Private market assets are becoming increasingly important as investors seek to access their illiquidity premium. However, these assets are often not rated publicly. As a result, we have substantial experience of rating private market assets using our own internal processes. PwC has reviewed and approved our ratings processes as being fit for purpose under Solvency II.

Personal client service

We understand the importance of working closely with clients to determine their exact requirements and to build lasting investment solutions. Once we have achieved this, we strive to engage proactively on an ongoing basis, ensuring that our investment solutions continue to meet each client's needs. Therefore, at the outset of every client relationship, we put in place clear service guidelines regarding the management of the mandate, regular meetings and reporting requirements.

Comprehensive investment solutions

We understand that your organisation has its own specific investment objectives. Over the years, we have built capabilities across a wide range of asset classes. As a result, we can provide either individual components or all-encompassing solutions that can help meet your long-term return requirements within a risk-controlled framework.

A choice of investment approaches

Depending on your requirements, we offer a variety of increasingly strategic investment approaches, from individual pooled products to complete outsourcing of all investment decisions.

1. We provide a comprehensive range of pooled products across fixed income, equities, multi-asset, absolute return and liquidity. In particular, we have strategies with capital efficient and diversification properties that make them ideally suited for insurance companies. We have detailed some of these strategies in table 1.
2. We offer a full range of private market assets including real estate, private equity, infrastructure debt and equity, private credit and commercial real estate lending. We can source these assets according to each insurer's specific requirements.
3. Some investors prefer a more custom-made approach. In this case, we can work together to build bespoke segregated mandates tailored to individual requirements. In doing so, we can create portfolios that aim to beat either a traditional or absolute return benchmark.
4. Increasingly, insurance companies are looking to match their future liabilities to meet their long-term cashflow needs. We have significant experience managing a range of liability-aware mandates for existing insurance clients and can leverage this expertise with new clients.
5. Given the highly complex and technical nature of new global insurance regulations, some insurance companies may wish to outsource their investment function. In this case, we can discuss moving towards fiduciary responsibility, making investment decisions on behalf of clients in line with agreed and well-defined parameters.

| Table 1 | |
|--|--|
| Strategy | Overview |
| Global Credit | We manage a range of global credit mandates, including sterling, euro and dollar portfolios, as well as emerging market credit. |
| High Yield Bonds | We offer a range of high yield strategies for investors. |
| Total Return Credit | We aim to provide a compelling total return with reduced volatility over the economic cycle. |
| Emerging Market Debt | We offer access to this rapidly growing asset class through hard currency, local currency and corporate bond strategies. |
| Enhanced-Diversification Growth | This cost-effective strategy aims to provide equity-type returns over a market cycle but with two-thirds of the volatility of global equities. |
| Global Absolute Return Strategies (GARS) | We target cash +5% each year (gross of fees) over rolling three-year periods. |
| Absolute Return Global Bond Strategies | We target cash +3% each year (gross of fees) over rolling three-year periods. |
| CRE Lending | Our commercial real estate lending strategy seeks to provide a reliable source of income with limited capital risk. |
| Infrastructure debt | Infrastructure debt can be used to match assets within a liability-matching strategy. |

Our solutions in practice

To show how our investment solutions could work in practice, we have provided some illustrations below. These real-life case studies highlight where we have worked closely with insurers to provide solutions to their business problems.

1. Reducing volatility within a with-profits fund

The business problem

An insurer approached us because of the high asset volatility within their with-profits fund, which subsequently led to large guarantee costs and capital requirements. As a result, they were keen to invest in a simple, pre-packaged solution that reduced their equity exposure without compromising return potential.

Our investment solution

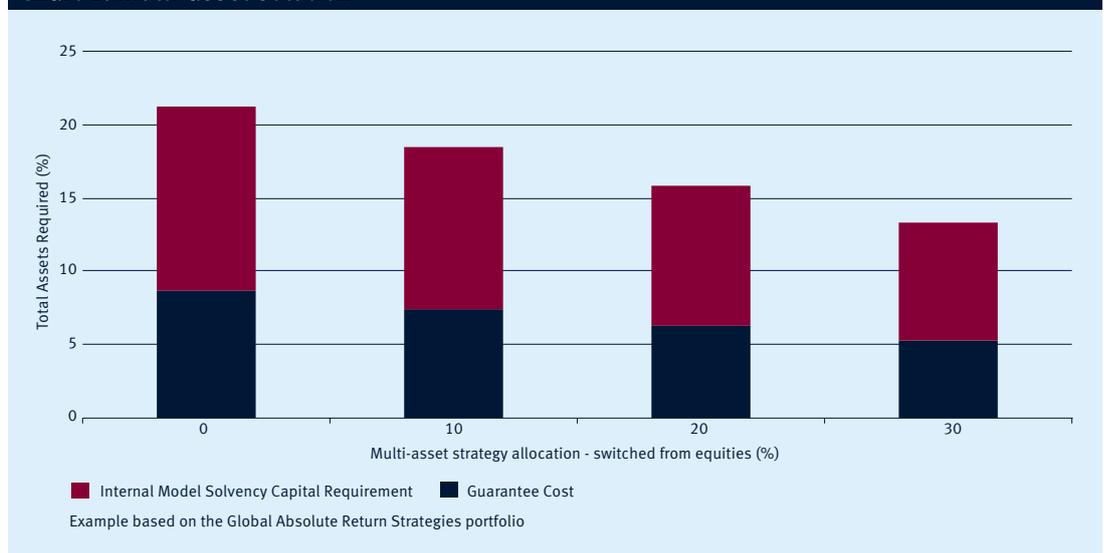
We designed our multi-asset range to provide absolute returns while displaying low volatility to help investors withstand times of great

market stress. As a solution, we first tested performance to check it was in line with the client's with-profits fund. In addition, we ensured the lookthrough data on the underlying fund assets was available within regulatory guidelines. As a result, the client moved forward with a multi-asset investment solution.

Client benefit

Our multi-asset solutions have a proven track record of generating positive returns with relatively low volatility. From a regulatory perspective, they can therefore help reduce guarantee costs and capital requirements.

Chart 1: Multi-asset solution



2. Capital-efficient yield enhancement

The business problem

A European general insurer's asset allocation predominantly held bank deposits and short-term investment-grade corporate bonds. The investment yield generated by this portfolio was at a historical low given the prevailing financial market environment. The CFO's objective was to increase the expected return of the asset portfolio by around 100 basis points without generating an intolerably large Solvency II market risk SCR increase.

Our investment solution

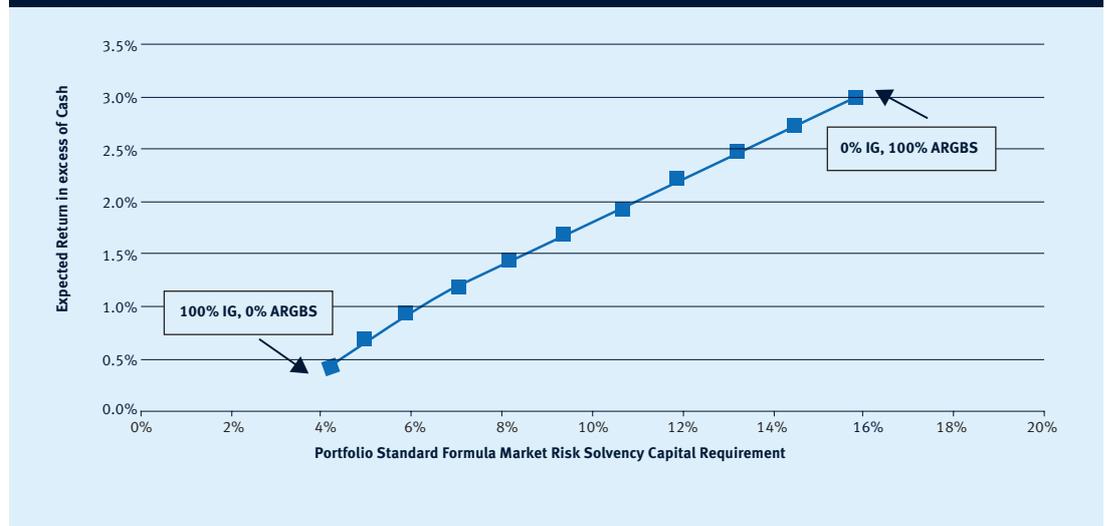
Our insurance solutions team worked with the client's investment and actuarial teams to show how our absolute return capabilities within fixed

income could provide a highly efficient route to yield enhancement in the context of regulatory capital requirements. This result was driven by our low return volatility (relative to other yield-enhancing strategies under consideration) and low correlation with the client's existing corporate bond portfolio. We also ensured we could provide lookthrough data for asset data reporting requirements of Solvency II on an ongoing and timely basis.

Client benefit

The client was able to materially increase the expected return of their asset portfolio while incurring a market risk SCR increase that was efficient relative to other yield-enhancing strategies under consideration.

Chart 2: Absolute return bond solution



3. Annuities and illiquid assets

The business problem

In a low-yield environment, a client asked us to help them increase the risk-adjusted return on the assets backing their annuity business. In doing so, the client expressed a desire to access the illiquidity premium available through private market asset classes such as infrastructure and commercial real estate debt.

Our investment solution

Our private market assets team developed an investment solution incorporating commercial

real estate lending and infrastructure debt to deliver the cashflow profile required for annuity matching. Having done this, the client was able to switch a portion of their bond portfolio into these assets.

Client benefit

Following the implementation of our solution, the client materially increased the expected risk-adjusted return on their overall portfolio. In addition, the portfolio is also compliant for matching adjustment and there has been a positive impact on IFRS profits.

Significant investment capabilities

As a forward-thinking asset manager, Standard Life Investments has developed capabilities across a range of asset classes. By constantly thinking ahead, we can provide insurers with investment strategies that are relevant in today's markets and beyond. We can demonstrate credentials in fixed income, liquidity, commercial real estate, equities, private equity, infrastructure and private credit. In addition, we provide investment solutions in multi-asset and absolute return.

Below we have detailed some of our key credentials in each asset class. Please visit our website www.standardlifeinvestments.com for further information.

Fixed income

Deep market coverage – our expertise spans the major global fixed income markets, enabling us to offer a wide range of strategies. These include investment grade and high yield corporate bonds, government bonds, emerging market debt (hard currency, local currency and corporate), inflation-linked bonds and absolute return bond strategies.

Experienced investment team – our fixed income team contains over 60 dedicated professionals with a broad range of skill sets and an average of 14 years' investment experience.

Global research platform – the team is based in the UK and US, which allows us to harness global insight and identify market trends, themes and investment strategies that ultimately help us deliver superior returns for our clients.

“Our success in fixed income is down to a close-knit team of investment experts with strong leadership, harnessed by a distinctive investment process.”

Craig MacDonald

Head of Credit and Aggregate Bonds

Liquidity

Extensive cash management expertise – we have a long history in managing liquidity requirements for both our parent company and third-party investors. We now manage liquidity assets worth over £40 billion on behalf of over 500 clients.

Focus on capital preservation – our first aim is to preserve capital by investing across a wide range of high-quality money market instruments within a triple-A rated fund structure that meets IMMFA's standards. We are also committed to maintaining appropriate levels of liquidity that take into account our views on market conditions and meet our clients' requirements.

Experienced management team – our 13-strong liquidity team has an average of 26 years' industry experience and works closely with the credit professionals within our fixed income team.

“We believe the strength of our credit process, the track record and experience of our portfolio managers and our robust control environment are the cornerstones of our liquidity offering and differentiate us from many of our peers.”

Gordon Lowson

Head of Money Market & Foreign Exchange

Multi-asset

Industry-leading solutions – we are at the forefront of multi-asset investing, developing innovative products that aim to deliver targeted returns within tight risk boundaries. Our multi-asset solutions include:

- ▶ absolute return strategies that aim to deliver positive annualised returns irrespective of market direction
- ▶ enhanced-diversification strategies that aim to generate equity-type returns over the medium term but with less volatility than investing in equities alone
- ▶ risk-targeted portfolios that provide investors with an investment based on their preferred investment style and tolerance to risk
- ▶ traditional balanced portfolios that spread investments across a range of different asset classes
- ▶ liability-aware investment strategies that aim to provide sufficient returns to meet all current and future liabilities.

Broad investment freedom – we can construct multi-asset portfolios without benchmark index constraints, with freedom to invest where we see the best potential for returns. Members of our over 50-strong multi-asset investing team are free to implement their best investment ideas to their full conviction, helping to maximise risk-adjusted returns.

Effective risk control – managing risk is an integral part of our multi-asset approach as it allows us to build portfolios that can withstand market stresses and provide investors with a smoother investment journey. We take a comprehensive approach to risk management, from pre-trade analysis to ongoing portfolio monitoring. We also carry out scenario analysis to measure how our portfolios would perform in a variety of economic situations.

“We believe in a team-based approach, drawing on our strengths to give us a complete picture of the investment world.”

Guy Stern

Head of Multi-Asset and Macro Investing

Equities

Common investment goal – while distinct in their risk tolerances and return objectives, our equity portfolios share a common goal: to consistently add value through active management. As a result, we can offer high-conviction portfolios with material active share and diversified, fundamentally uncorrelated stock ideas.

Comprehensive investment range – we manage a full range of equity strategies that span the risk/return spectrum. This includes:

- ▶ global equities including core, unconstrained and income strategies that draw on the collective insights of more than 60 equity professionals
- ▶ UK equities investment portfolios that span a wide range of strategies including core, income, unconstrained, high alpha and ethical
- ▶ European equities portfolios that suit various investor profiles, including core, income, ethical and unconstrained
- ▶ GEM equity mandates including single country and regional portfolios
- ▶ Japanese equities portfolios managed by our strategic alliance partner Sumitomo Mitsui Trust Bank
- ▶ North American equity mandates managed by our team in Boston
- ▶ Smaller companies portfolios that seek to uncover tomorrow's larger companies today.

Critical success combination – our success in managing a wide range of equity strategies is based on a clear philosophy and robust investment process. For example, our investment process combines focused portfolio management with proprietary research and significant resources that allow us direct access to company management at the very highest levels.

*“The relentless application of our *Focus on Change* philosophy, combined with a team approach to investing and breadth and depth of coverage, allows us to consistently exploit profitable investment opportunities.”*

David Cumming

Head of Equities

Real estate

Real estate heritage – we have been active participants in the global real estate market for over 50 years and several of our flagship real estate vehicles have performance track records covering more than 25 years.

Breadth of capability – we offer holistic solutions in real estate, including direct and listed strategies, real estate lending, hybrid portfolios and real estate derivatives. In total, we manage assets worth £18.2 billion (as at 31 December 2015) across a range of real estate vehicles, assets and geographies. In terms of direct investment, over 650 properties are owned in 16 countries.

Real estate lending expertise – we have actively invested in the commercial real estate lending market since April 2014, seeking to provide investors with attractive risk-adjusted returns and strong yields. To achieve this, we have built a five-strong real estate debt team, located in Edinburgh and London.

“Investing in commercial real estate across the globe requires experience, specialist knowledge and shrewd judgement - exactly the critical combination we offer.”

David Paine
Head of Real Estate Investment

Private credit

Dedicated to private credit – we increased our capabilities and expertise in managing private credit mandates following the acquisition of Ignis Asset Management by Standard Life Investments in 2014. As a result, we now have a strategic credit team with a strong track record and over 15 years’ experience, which forms a close working partnership between SL Capital Partners and the Standard Life Investments’ credit team.

Focus on quality – in managing private credit mandates, the team focuses on good quality, senior and junior mid-market corporate debt. It also seeks to identify strategic credit opportunities.

Private equity

Experts in private equity – SL Capital Partners is a subsidiary of Standard Life Investments and specialises in the provision of private equity investments in Europe and North America. It is one of the largest European private equity fund-of-funds managers, investing in primary and secondary fund investments and co-investment opportunities.

Significant industry experience – with a combined experience of more than 200 years, our private equity team boasts a distinguished long-term track record. One of its key strengths is its direct deal experience that gives it insight into the strategies, processes and disciplines of the funds in which we invest.

Focused investment strategy – we aim to maximise investment returns while minimising risk. To achieve this, we use a proven strategy of investing with leading private equity funds and co-investing with fund managers selected by SL Capital.

“We can work closely with insurance companies to deliver private equity solutions that help achieve their long-term investment goals.”

Peter McKellar
CIO, SL Capital

Infrastructure

Profitable infrastructure assets – investing in infrastructure equity can provide attractive long-term returns given their importance in a functioning society. SL Capital has an experienced infrastructure team that also benefits from Standard Life Investments’ institutional heritage.

Focused investment strategy – SL Capital targets long-term direct investment in core infrastructure assets in the UK and Northern Europe. The focus is on delivering an attractive current yield, as well as capital growth from low-risk infrastructure assets. SL Capital also commits significant capital into European-focused infrastructure secondary transactions.

“Leveraging our extensive knowledge and close industry relationships, we seek to uncover profitable investment opportunities for our clients.”

Dominic Helmsley
Managing Director, Infrastructure,
SL Capital Partners

Summary of benefits

We believe that choosing Standard Life Investments to manage your insurance assets brings a number of benefits, which we have summarised below.

| At a glance – reasons to invest | |
|---------------------------------------|---|
| History and heritage | As part of Standard Life Group, which dates back to 1825, we have a long history in managing insurance assets for both our parent company and for a large number of third-party investors. We now manage insurance assets worth £148.0 billion for a wide range of clients. |
| Dedicated insurance team | A team of four highly experienced commercial actuaries, supported by a wider team of experienced insurance professionals and actuaries, gives dedicated support to our insurance clients around the world. Their knowledge and experience means they can provide extensive industry insight and support clients where required. |
| Global investment capabilities | We offer genuine global reach, with capabilities across a broad range of asset classes that can meet the specific needs of insurers. Across each asset class, we can demonstrate strong and experienced investment teams, a full product range and compelling track record. |
| Choice of investment solutions | We can offer insurers access to our investment capabilities through a variety of increasingly strategic solutions, from pooled products to the complete outsourcing of investment decisions. |
| Extensive asset reporting | In line with new regulatory requirements, we can provide our insurance clients with full line-by-line asset reporting by working day five each month. |

Find out more

To find out more about our insurance capabilities, please visit www.standardlifeinvestments.com or get in touch with your Standard Life Investments contact.

Visit us online



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An investment in any strategy is speculative and involves certain risks. Prospective investors should ensure that they: (1) understand the nature of the investment and the extent of their exposure to risk; (2) have sufficient knowledge, experience and access to professional advisors to make their own legal, tax, accounting, and financial evaluation of the merits and risks of participating in an investment in the strategy; and (3) consider the suitability of investing in light of their own circumstances and financial condition.

No investment strategy or risk management technique can guarantee return or eliminate risk in any market environment.

The above factors do not claim to be a complete list or explanation of the risks involved in an investment. In addition, as the investment markets and strategy develop and change over time, an investment may be subject to additional and different risk factors. No assurance can be made that profits will be achieved or that substantial losses will not be incurred.

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Calls may be monitored and/or recorded to protect both you and us and help with our training.

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