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The Rt Hon Frank Field MP & Rachel Reeves MP
Work and Pensions Committee
Business, Energy and Industrial Strategy Committee
14 Tothill Street
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2 February 2018

Dear Mr Field and Ms Reeves

Thank you for your letter of 26 January in which you raise a number of questions regarding our engagement with Carillion plc.

The enclosed briefing note explains the history of our engagement with the company, all of which took place prior to the merger of Standard Life and Aberdeen Asset Management in August 2017. In summary:

- At the point at which Carillion went into receivership Standard Life Aberdeen held only a minimal shareholding in the company through a small number of 'passive' investment funds (representing 0.65% shareholding at the end of 2017).

- Standard Life Investments ceased to have an active shareholding in Carillion from July 2017 due to a process of divestment which began in 2015. This was due to concerns on a number of issues including strategy, financial management and corporate governance.

- Regular meetings were held with members of the company's senior management and its non-executive directors until Standard Life Investments ceased to be a shareholder in July 2017.

We very much hope this response has addressed the questions you have raised in relation to our engagement with Carillion. If you require any additional information or clarification we would be very willing to assist.

Yours sincerely

Keith Skeoch

**Keith Skeoch**
Co-Chief Executive
Standard Life Aberdeen plc

**Martin Gilbert**
Co-Chief Executive
Standard Life Aberdeen plc

## History of engagement with Carillion plc

### Summary

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### Background

Standard Life Aberdeen (SLA) was formed through the merger of Standard Life plc and Aberdeen Asset Management plc in August 2017. Headquartered in Scotland, we have staff located in 50 offices worldwide with assets under management and administration of £646.2bn (as at 30 September 2017).

As a merged entity SLA had only a minimal shareholding in Carillion plc at the point at which the company went into receivership on 15 January 2018. This position was due to a number of factors and investment decisions which pre-dated the creation of SLA in August 2017.

For the purposes of clarity it is necessary to distinguish between the separate histories of engagement that Standard Life and Aberdeen Asset Management had with Carillion in the lead up to its ultimate collapse.

### Standard Life

As an active investor Standard Life Investments had a regular programme of contact with Carillion.

2014: Two meetings and three conference calls with Richard Howson, the CEO, and Richard Adam, the Finance Director. We also held a separate meeting with Philip Green, the chairman, in July 2014 to assess corporate governance arrangements.

2015: Separate meetings with the CEO and chairman (September 2015 and December 2015 respectively) to discuss management and corporate governance arrangements.

2016: Two meetings with the CEO and Finance Director (March 2016 and September 2016).

2017: Standard Life Investments met Carillion on two occasions:

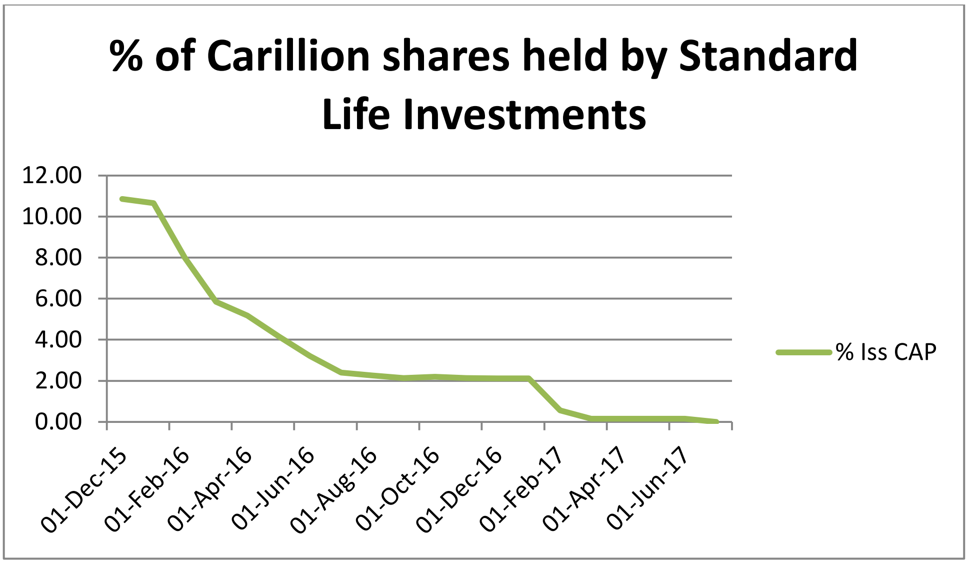
- A meeting on 3 March 2017 attended by Richard Howson, the CEO, Zafar Khan, the Chief Financial Officer, and a member of the Carillion investor relations team.

- A meeting on 17 July 2017 attended by Keith Cochrane, the interim CEO and a member of the investor relations team. This was the only meeting with the company during the time period you refer to in your letter (from publication of the Annual Report and Accounts for 2016 on 27 March 2017 to publication of the interim results for 2017 on 29 September 2017).

At the time of this second (and final) meeting the Standard Life Investments shareholding in Carillion was 0.15%. By the end of July 2017 all remaining shares held by Standard Life Investments had been sold.

This followed a deliberate process of gradual divestment from Carillion which began in December 2015, at which point Standard Life Investments was a major shareholder with 10.8% of the issued share capital.

By the end of 2016 this position had reduced to 2.1%. This process continued during early 2017 up to the point when Standard Life Investments had disposed of all Carillion shares by July 2017, as shown by the following graph:




There were a number of interconnected reasons for this divestment. In summary, there were growing concerns from late 2015 on a number of fronts, including the company's strategy, its vulnerability to worsening market conditions and financial management, including the strength of its balance sheet. As a consequence our investment position on Carillion moved from a 'hold' to a 'sell' from December 2015 onwards.

Specific concerns with Carillion included:

- High levels of on and off balance sheet debt for a cyclical, low margin business with limited possibility of this debt burden being reduced in the near term due to acquisitions and a high dividend payout.

- Widening pension deficit (from £317m to £663m in 2016).

- Downward pressure on earnings in spite of revenue growth due to narrowing margins on new business, particularly in support services, UK construction and projects in the Middle East.

- Weak cash generation due to working capital outflows, restructuring costs, pension contributions and capital expenditure needs.

- Our engagement on corporate governance matters left us with concerns about the willingness of the board to alter the strategic direction of the company to address our concerns.

These issues were raised with the management through our ongoing engagement. However, it was felt the management was not giving sufficient weight to the probability that trading may deteriorate further or to the downside risk from this scenario given the high level of debt. The board showed no inclination to drive the management to change.

As a responsible investor we place an enormous importance on our engagement with the companies in which we invest. This is demonstrated through the number of meetings and our strong voting record, further details of which can be found in our quarterly Stewardship and ESG reports which are published on our website:

www.aberdeenstandard.com/what-we-do/stewardship-and-esg

However, even as a major institutional investor, there are practical limitations as to how much we can influence the financial decisions taken by the management of any company in which we invest, particularly if we hold a relatively small position as we did in Carillion by the end of 2016 and early 2017.

Our first duty is to manage investment risk and add value to the assets we manage on behalf of our clients and customers. If the risks attached to any particular investment outweigh the anticipated returns our ultimate recourse, as an active investor, is to reduce our exposure or completely divest from those assets and reinvest elsewhere.

**Aberdeen Asset Management**

During the period in question Aberdeen Asset Management (AAM) had a very limited holding in Carillion. At the end of 2017 this was 0.65%. This shareholding was mainly held in passive funds which track a market index. The choice of index is based on the investment mandate provided by the client.

In this instance we held Carillion shares as part of a wider portfolio of shares which reflected the constitution of the market indices which were being tracked. The value and proportion of Carillion shares held within our passive funds reduced over time as the stock fell out of various indices and its market value declined.

Due to the nature of the AAM investment in Carillion the amount of direct engagement was relatively limited. The last meeting between AAM and the company was in September 2015 with Philip Green, the chairman of Carillion, following the withdrawal of its bid for Balfour Beatty.

**UK Stewardship Code**

SLA is fully committed to supporting the principles of the Code - to which Standard Life Investments and Aberdeen Asset Management were both early signatories. These principles are central to our stewardship of the companies in which we invest.

We are currently engaged in the ongoing review of the Code and will be submitting our recommendations to the Financial Reporting Council (FRC) very shortly. We are also signatories to the PRI, the world's leading proponent of responsible investment.

For further background we enclose a copy of our latest Global ESG Report (Q4 2017). More information about the work of our Stewardship and ESG team can be found on our website.