S1 2020 Earnings Call

Company Participants

- Andrew Croft, Chief Executive Officer
- Craig Gentle, Chief Financial Officer
- Ian Gascoigne, Managing Director
- Ian MacKenzie, Chief Operations and Technology Officer
- Robert Gardner, Director, Investment Management

Other Participants

- Abid Hussain, Analyst
- Andrew Baker, Analyst
- Andrew Crean, Analyst
- Andrew Sinclair, Analyst
- Colm Kelly, Analyst
- Jon Hocking, Analyst
- Oliver Steel, Analyst

Presentation

Andrew Croft {BIO 5711239 <GO>}

Good morning everyone, and welcome to our 2020 Half-Year Results Presentation. Given COVID-19, today's presentation has been pre-recorded and we will be hosting a live Q&A at 10.45 AM. The agenda for this morning is an introduction from me, followed by Craig running through the financials. Ian will then cover how the partnership is adapted to COVID-19, before I wrap up and look at the outlook.

The first six months of 2020 has been an extraordinary period, both here in the UK and across the world. A six-months period of two halves, pre and post-COVID. We began the year with renewed confidence and momentum in the business on the back of strong investor sentiment following the UK General Election result in December 2019. We were back in the groove, so to speak, and experienced strong growth in new business during the early months of the year.

Gross inflows in the first quarter increased by 12% to GBP4.04 billion. Given the continuing strong retention, net inflows for the period were up 9% at GBP2.37 billion. This represented annualized growth of 8.1% on opening funds under management. Unfortunately, the momentum that was building was then interrupted by the COVID-19 pandemic, which has had a profound impact on all of our lives. Social distancing and other government imposed measures have resulted in real changes to our normal routines. The pace of change too has been incredible and we have all had to adapt rapidly developing new habits and practices in short order.

Key to our ability to react quickly has been the investment we have made over time in our technology systems. Including our back office administration system Bluedoor. The COVID-19 pandemic has demonstrated the real benefit of this investment with our business being more operationally resilient, not least through greater use of electronic business processing. Our advisers have reacted with remarkable agility to ensure that they have been able to engage with clients, despite the challenges presented by social distancing. By making greater use of digital channels, including webinars, video conferencing and social media, advisers who are able to provide relevant and valuable information at an uncertain and difficult time. Ian will provide more color on how the partnership has adapted later.

We also accelerated the rollout of new and complementary innovations to support advisers and their clients. This included rolling out Qwil, a secure messaging tool, digital data capture systems and DocuSign, a virtual verification process. We have also commenced the rollout of Salesforce software to our 2,500 SME Partner businesses. However, despite the agility of the partnership and the organization, the difficult trading environment, together with social distancing has naturally impacted our new business.

During the second quarter gross flows at GBP3.22 billion were 15% lower, taking the six months gross flow to GBP7.26 billion, down just 2%. Despite stock market volatility and economic uncertainty, retention continued to be very strong, with net flows for the second quarter at GBP2.15 billion, 5% lower than the second quarter of 2019. This resulted in net flows for the six months of GBP4.52 billion, actually up 2%. Given the external environment, the outcome for both gross and net flows was strong, demonstrating the resilience of the business and the partnership.

At the outset of the pandemic, we took the decision to provide monthly updates of our gross and net flows, due to the unprecedented trading environment many investors had no reference point for forecasting our business flows. From this additional disclosure, you can see, however, that there was no material difference in gross or net flows month- by-months during the quarter. And going forward, now we have four months into this, we believe now is the right time to return to our historic quarterly market updates. The strong net inflows, together with the impact of investment markets resulted in funds under management of GBP115.7, billion, only marginally lower than the start of the year.

Turning now to growth in the partnership. As social distancing prevented face-to-face meetings and in recognition the difficulties many experienced financial advisers will have been facing. We decided it was right to moderate our outbound recruitment activity at the height of the crisis. Consequently, the growth in the partnership was motivated with an increase of 1.2% taking the partnership to 4,324. Despite this more moderated growth in the first half of the year, the Partnership is nonetheless 6% larger than 12 months ago. We have adapted some of our recruitment practices including the launch of a virtual insight session for prospective recruits, as well as introducing an online introduction to Wealth Management, which is an accreditation course for new joiners to the Partnership.

Our Academy operations have moved to an online delivery and we are continuing to work closely with the Chartered Insurance Institute to ensure that the 379 individual at various stages in the program continue to have access to professional examination sittings as necessary. We did, however, defer all new entrants, but these individuals will be joining in the second half of the year as the academy is restarted.

During these challenging times, it is important that we also remember the hundreds of individuals and small businesses with whom we have a relationship, including the charities that rely upon our support. I'm pleased with how the corporate, our Charitable Foundation, and our community have responded. It is during such challenging times that the value of coming together as a community is most evident.

I'm now going to hand you over to Craig to run through the financials.

Craig Gentle {BIO 20095126 <GO>}

Thanks Andrew, and good morning everyone. When I presented our full year results back in February, I explained that 2020 felt very difference, and when I said that I had no idea of the significance of that statement. Within three weeks of saying it, we were in a national down and having to consider scenarios that would have been almost unthinkable in the first two months of the year. Nonetheless, our financial business model is once again proving itself to be resilient in times of stress. And in the next few minutes, I'll talk you through the highlights of the past six months.

Andrew has already commented specifically on gross and net inflows and the Partnership, so I won't repeat this; instead, I'll comment on our cash result, the EEV results and our capital position. I'll also cover the dividend position, which remains unchanged since our announcements in April. Net income from funds under management grew by 10% to GBP218.9 million. Growth has obviously been somewhat challenged by negative markets, but it has been boosted into net growth territory by strong and consistent net inflows, together with funds maturing from gestation and beginning to contribute to the results.

The net AMC margin for the first six months is in line with the guidance we've given you and this will remain the case in the next half and for the foreseeable future. The balance of funds in gestation at the 30th of June stood at GBP39.4 billion. As a reminder, these funds are not yet contributing to the net AMC margin, but they will do so in the future. And based on market values at the 30th of June, once they will mature, there will be an additional GBP349 million of income annually in the cash result with no additional cost.

It's worth noting and you'll see from our disclosures that the rates at which gestation matures increases quite sharply from 2021 onwards. And this reflects the significant boost given to pension flows following pension freedom in 2015, which resulted in a change in composition for new business in favor of pensions from that point onwards, this represents a significant store of value. The margin arising on new business has reduced by 6% to GBP58.2 million, this is principally the result of gross flows being lower by 2%, but as I've mentioned before, there is some operational gearing in this calculation because of short-term fixed costs. This gives a benefit in times of growth and results in a cost in times of lower flows.

Establishment expenses have grown by 8%, which is 1% below the amount I guided on back in February. It's worth remembering that this guidance reflected the fact that adviser numbers were some 8% higher going into 2020 than 2019. The saving we've made is largely attributable to discretionary cost reduction activity carried out during the course of the second quarter. It's also important to note that approximately two-thirds of our establishment expenses are people and property-related and therefore fixed in nature. They are also planned in advance, taking into account growth plans.

Our growth expectations for 2020 half after getting off to a very strong start, clearly being disrupted by a challenging operating environment. And at this point, it's reasonable to assume that this could continue at least for the remainder of this year. We remain committed to protecting our operations and keeping them primed for the current demands being placed on them and for future growth, but we will of course remain focused on reducing any discretionary costs that can be deferred or canceled altogether for the remainder of 2020 without damaging the model. For the purpose of your modeling, I would suggest you assume an overall increase in establishment expenses of 8% over the 2019 cost.

Operational developments have increased to GBP14.1 million. There have been a number of specific accelerated developments during the first half, all geared towards enabling remote working and seamless client engagement. This included an electronic signature rollout, a web enabled identity validation and other developments, which was so important to ensure that business was not interrupted following lockdown. It's worth saying that these investments will undoubtedly result in long-term efficiency as well. The charge also reflects our decision to rollout Salesforce to our 2,500 SME Partner businesses, which once fully up and running will bring significant benefits in terms of clients' experience, business efficiency, and risk management. Some of these expenses will continue to run into the second half and for modeling purposes, I think the best assumption to make is that the full year charge will be equal to twice the half year charge.

For the Academy, in April we reported that we were confident we could complete the training and development programs that have already started, but that we would defer in those intakes that had not yet started. This decision is reflected in costs in the first half that's down by 4%. For your models, I would assume that there are further 2020 cohorts and I would anticipate a total cost broadly in line with that of 2019.

FSCS costs are GBP27.8 million, remain an increasing cause for concern for us. And although we're fundamentally supportive of a mechanism that protects consumers, we agree with the comment made by the FCA Chairman when he said that, all too often the polluter doesn't pay the cost of bad behavior by firms, which then fail is usually neutralized through the FSCS rather than borne by the wrong doers. We welcome the goal that has been outlined by the FCA of redesigning a system to make sure the polluters pay.

The June position on tax relief from capital losses has been materially influenced by movements in the markets for the first half of the year. And yet, it's only the year-end calculation, that actually determines a cash flow. The position in June shows a credits of GBP28 million, but for the year-end, our range of estimates show that GBP18 million of this is likely to reverse, leaving an actual cash flow for the year of approximately GBP10 million. For this reason, we've allocated GBP18 million of the June credit to a positive variance included under underlying cash and you should assume that this reverses in full by the year end.

Asia and DFM combined have seen a net investment increase of 26% and this reflects an underlying expenses increase of around 9%, compounded by a reduction in income attribute to the operating environment. This is clearly similar to the experience of the Group as a whole from Q2 onwards. Expense management is under scrutiny across the Group, and this is particularly the case in these two areas. Given short-term uncertainty is difficult to be precise on what the year-end outcome will be, but for modeling purposes you might pencil in similar full year outcomes as in 2019 for both Asia and DFM.

Strategic development costs of GBP5.6 million include a cost in 2020 for reconfiguring over 2,500 SJP Partner business websites. This will result in a more dynamic content and significantly improved search engine optimization. I expect the total charge for the year on this line to be equal to around twice the half year charge. Taking all of this into account, the underlying cash result for the first half was GBP114.4 million, which is 9% lower than for 2019 and a very strong result given the operating environment in the second quarter.

I've already commented on the tax variance, which we expect to reverse in the second half and so the only charge that we expect to see by the year end in this part of our cash results is the GBP10 million that I guided on for back-office infrastructure. Of this, GBP6.5 million has been spent in the first half as we decommissioned old systems and finalized new business processes and I anticipate final costs of GBP3.5 million to arise in the second half, bringing the total cost for the year to around GBP10 million, in line with guidance. Taking the into account, the cash results is GBP124.7 million, some 25% ahead of last year. But given the predicted reversal of the tax variance, I would suggest that an increase of around 7% better describes the like for like position, but again a strong result.

I'll now turn to the EEV result, where there are two items worth commenting on. Firstly, we saw an EEV operating profit of GBP418.7 million, this is some 10% lower than for 2019 and this is a combination of costs for the new business margin that I've covered elsewhere in the cash result. Secondly, we saw an investment variance of GBP329.7 million negative which reduced the EEV profit before tax to GBP45 million. The EEV result in any given year will always be sensitive to market conditions and changes in the tax regime, but it's important to note that fundamentally our embedded value remains in very strong shape with excellent retention of some 96% and consistently strong gross inflows, both of which results in consistent growth in funds under management, supporting an EEV per share of GBP12.78 per share.

Turning to Solvency, our capital position remained strong. The first half has seen an enormous amount of volatility in all markets, but as you'll be aware, our business is unit-linked and asset matched, which means that our assets and liabilities move in sync whatever the conditions. This is largely why our UK Life Company approach of holding Solvency II capital equal to 110% of the standard formula is a strong and sustainable approach.

At the half-year point, the Solvency II ratio in our Life businesses was 124%, which is significantly higher than the 115% we reported at this point last year. There are, however two areas where we benefited during the first half that are important to note in order to understand the like-for-like comparison. If you take these into account, both of which will reverse over time, our underlying solvency ratio remains broadly consistent with last year at 115%.

Finally I'll recap on something that we announced in April and that concerns dividends. We believed that the more extreme potential scenarios that we modeled back in April haven't materialized. And indeed, there are some encouraging signs of a gradual return to a more normal life. There is still, however, significant uncertainty for the world ahead and for this reason the Board remains satisfied with the decision that it reached in April and we will continue to retain approximately one-third of the previously proposed 2019 final dividend until such a time as the financial and economic impacts of COVID-19 become clearer.

In addition, the Board will make one decision on the 2020 dividend in February, 21, when we believe we'll be in a stronger position to assess the impact that all of this has had on our 2020 business. We're of course mindful of the importance of cash returns to shareholders and we'll continue to balance this with the need to ensure the business is protected even in extreme circumstances. So, overall, a strong set of results delivered in a period characterised by an extraordinary range of trading and operating conditions.

I'll now hand over to Ian who'll give some insights into the way in which the Partnership has responded to these conditions.

Ian Gascoigne {BIO 4439479 <GO>}

Good morning, everyone. I'm delighted to provide some observations as to have the Partnership has responded to the challenges and opportunities presented by CVOID-19 and the lockdown. So to start, let's just remind ourselves that the partnership is not a homogeneous entity, but a rich varied diverse community of over 2,500 advisory businesses with a geographical spread ranging from Plymouth to Aberdeen and Mayfair to Lombard Street.

It consists of a range of business structures from boutique, single partner practices to multi-adviser businesses with 40 advisers and 100 support staff. We have businesses have been with us since 1992 and we have recent graduates from our Academy who have barely three months standalone experience within the business. Some of our businesses manage over a GBP1 billion of their clients wealth. And as I've indicated, some are very much in the start-up phase of building that businesses.

So, to the exam question, how has the Partnership responded to the severe dislocation caused by COVID and the lockdown? Well, for me, it would be characterized by resilience, agility and adapting to new ways of working and embracing technology to enhance client engagement. We have to remind ourselves of the situation at the end of March, a volatile market downturn and the announcement of lockdown. For a while, it was scary and this was when clients wanted to speak to their advisers and that is exactly what happened. The immediate response at the end of March was one of the incredibly high levels of client engagement, reassuring clients at the height of uncertainty, helping them to be rational and calm, to avoid making poor short-term decisions, simultaneously moving to remote working themselves and utilizing Zoom and Teams for client meetings.

Partners have continued these high levels of client engagement throughout this period and if anything, my observation is that relationships have strengthened during this period. Goodwill has been banked, value added. Internally, we've run a range of workshops and best practice sessions to assist and improve virtual presentation skills, the use of split screens, the importation of visuals and animations, forward agendas and more creative ways of interacting. And at the same time, we've re-engineered some of our own internal processes making business easier to process.

For example, the use of DocuSign. Partners are seeing clients returned 47% of documents within one hour and 75% within the day. Client ID is now routinely collected utilizing the Capture app and these all add operational efficiencies within Partner businesses and I've no doubt that we've also benefited from our previous investment in Bluedoor and the fact we were well on our digital journey. The general lockdown mood in the UK has meant that clients welcomed virtual meetings and wanted contact from Partners who reported a deepening of client engagement during this period.

It was also helpful that clients were a lot easier to get hold of and often had more time to talk about their affairs and what really mattered to them. Our younger partners have adapted very quickly and our older partners usually have tech-savvy individuals in their support staff. So COVID-19 has done a lot to accelerate the journey towards digitally supported face-to- face advice. The changes we made internally to process business demonstrated a commitment to treating this is an opportunity, more than a challenge.

Now the mature businesses have rightly spent more focus on existing client reviews during this time in the market. I think that is evidenced by our retention figures. There's also a lot to suggest that some new business has been deferred until a great resemblance of normality returns. And traveling at the pace of the client is important, our partners take a long-term perspective. Younger businesses have faced probably the biggest challenges in marketing for new clients, but again there have been creative responses such as virtual client events, seminars, webinars, presentations and more informal interactive sessions such as wine tasting.

There are many and increasing examples of Partners taking a potential client from initial first meeting through the full advice process and on-boarding them fully as clients and doing this entirely remotely. Interestingly, this also opens up an entirely new horizon in terms of Partner reach, in terms of their own geography and referrals. So this hybrid model of client acquisition and maintenance is an exciting development and outcome.

What has also been very clear is the client and potential clients' total acceptance of virtual meetings and consultations and our skilled partners are becoming increasingly good at this. However, we also have a full schedule in place for the reopening of our offices and this call today is from Lombard Street, open and ready for safe client meetings.

So there is no doubt that COVID and lockdown has been a short-term shock to the system. However, if there is one attribute that characterizes the Partnership, is it's resilience. It is the attribute which has made them successful and it is that coupled with adaptability and agility which has led to more creative ways of working with clients. And as I've said, clients have proven very receptive to these meetings and themselves have been keen to take stock, think about their own mortality and life goals during this dislocation. Strategic advice is valued in times of uncertainty.

And as you'd expect, internally we've held numerous virtual meetings across the business, sharing best practice, as well as building a sense of community and mutual support. We are seeing a change in work patterns, greater flexibility and agility, more use of technology to drive efficiencies and an overall positive response to the challenges, as you would expect from 2,500 small dynamic businesses. I hope that has given you a flavor of what's been happening over the last three months or so.

I would now like to hand back to Andrew.

Andrew Croft {BIO 5711239 <GO>}

Thank you, Ian. It's great to see how the Partnership has adapted. Some final reflections from me on the first half, before finishing on outlook. As I said earlier, the business adapted very well to the extraordinary environment we all found ourselves in. Against the backdrop of empty streets, empty bars and restaurants and empty offices we have nonetheless achieved what in my view are very good and resilient set of results. To recap, gross flows were GBP7.3 billion and net flows of GBP4.5 billion, the equivalent to 8% of opening funds under management on an annualized basis.

Against the backdrop of low world stock markets, funds under management were GBP115.7 billion, just 1% lower. The underlying cash result at GBP114.4 million was only down 9% with the total cash result actually higher than the first half of 2019. And let's not forget the six months embedded value operating profit of GBP418.7 million, a measure of the long-term value added during the six months. With the embedded value per share at the half year, being GBP12.78.

Before moving to the future, a couple of other comments on the first half of the year. The last four months have been a period where the value of trusted personal long-term financial advice has been really demonstrated as individuals have sought to navigate complex, volatile and uncharted waters. It's during times like these that having someone to hold your hand, communicate and provide piece of mind, as well as prevent behavioral mistakes is worth its weight in gold.

Financial advice transforms lives by helping people build well diversified portfolios to achieve long-term goals in line with the their risk profile. In this respect, our portfolios have fared better on the downside, compared with the broader markets. Advice also delivers wider benefits such as inheritance tax planning, maximizing the use of tax allowances and even the discovery of missing pension pots, alongside the advice is our proposition which we continue to enhance. In February, we appointed Somerset Capital Management as a new manager of our Global Emerging Markets Fund and more recently we have appointed Pzena Investment Management, Sanders Capital and Artisan Partners, to manage our Global Value Fund. We look forward to working with all of our new managers.

Alongside achieving long-term financial goals, our portfolios also look to invest responsibly. As previously reported, we were awarded A Plus in the latest United Nations Principles for Responsible Investment Annual Assessment. We also continued to influence our investment managers to become signatories to the principles, an important step to further embed responsible investing in our investment management approach and towards our goal of helping clients achieve financial wellbeing in a world worth living it.

We've recently published our first quarterly Portfolio Carbon Emissions Report which compares the carbon footprint of our portfolios with their equivalent benchmarks. We believe it is a significant step forward in providing our clients with greater insight into their investments. We will continue to develop and shape our proposition to meet the changing future needs of our clients and our clients' value both our proposition and the advice they receive and I'm pleased to report that St. James's Place has once again received numerous awards.

A particular highlight was being voted the City of London Awards 2020 Wealth Management Company of the year. We have now received this award eight out of the last nine years and I would like to thank our clients who voted for us. So, what does the future hold? The country is slowly emerging from the lockdown. Restaurants have open, with businesses large and small starting to open their doors. At SJP we are facing the reopening of our offices in measured and cautious, but deliberate steps and safety of our community in our clients is paramount. By the end of this week we had have opened the majority of our offices with the remainder scheduled to open during August and early September.

It is also important to remember there across the country 85% of our Partner businesses operate from their own offices, many of which are open for business. As you've just heard from me, the Partnership has adapted extraordinarily well, embracing new technology to manage both existing clients and build new client relationships. However, to return to normal and get back into the groove, it is important to be able to have face-to-face, albeit socially distant meetings.

As the population at large recovers from more than four months of lockdown, we anticipate a period of recuperation for the UK. Nonetheless, from what we have experienced so far in July, we still expect the total value of new business flows for the third quarter to be similar or slightly lower in terms of value to the level of flows recorded for the second quarter. We are then hopeful that as the country returns from the summer break refreshed and ready for a return to the office and given the high levels of client service provided by the Partnership since lockdown that we will see momentum build through the final quarter.

Overall, 2020 is set to be another year of major net inflows as our business model proves resilient in a really difficult period. We are more confident than ever that we will deliver growth over the longer term, given the strengths of St. James's Place and the dynamics of our market. And let's remind ourselves of the long-term structural fundamentals of our business model.

The number of individuals with investable assets of between GBP50,000 and GBP5 million is large and growing. The demographic profile of the population is also favorable and with the demise of defined benefit pension schemes, individual need to save for their retirement and long-term care. Individuals need to be their own actuary, investment manager and trustee if you like or alternatively find someone to assist them. This challenge for individuals is compounded by the very low interest rates, which are unlikely to increase to a meaningful level any time soon.

Planning for ones future financial wellbeing is complex and requires a skill to navigate through the multitude of rules and maximize tax allowances. We also live in a globally interconnected world and having a trusted adviser help establish a well-diversified portfolio which meet your own attitude to risk, aspirations and time horizon provides peace of mind. Then at the same time there is a large intergenerational transfer of wealth occurring in the UK, which we estimate could amount to GBP1 trillion over the next decade.

All this points to the need for trusted financial advice. And here is the most interesting point, there is simply not a sufficient supply of financial advisers in the UK and given the number of the existing industry pool of advisers reaching retirement age, the supply will become further constrained over the coming years. A perfect environment for a face-to-face business like ours, and therefore the long-term prospects for St. James's Place remain as strong as they ever have been.

In fact, I would argue that as we emerge from COVID-19, our prospects will be even brighter. For me the need for a trusted face-to-face adviser has only grown stronger. We have all adapted to new ways of working and embraced technology which will make us more efficient, supported by our recent technological investment. This investment not only put us in a good position to adapt to COVID-19, but also provides us with a great platform to continue our technological journey from which the business will benefit in coming years. Recognizing the advice gap, we continue to invest in the Academy, which is now well established with 379 individuals currently in the program. The majority of whom will graduate into the partnership in the next couple of years.

The difficult trading environment caused by COVID-19, whilst at the same time is increasing regulatory and PII cost, will increase the attraction of existing industry advisers joining the St. James's Place partnership. With both the savings gap and an advice gap we are ideally placed to continue to grow. We are therefore planning for GBP200 billion of funds under management in the not too distant future.

That's me finished. I will leave you with a summary of the results, thank you for watching.

Questions And Answers

Operator

Good morning and a very warm welcome to the St. James's Place Half Year Results question-and-answer session. (Operator Instructions)

I will now hand over to Andrew Croft, Chief Executive to chair the call.

A - Andrew Croft {BIO 5711239 <GO>}

Good morning, everyone. Welcome to our conference call this morning. I hope you've all had the opportunity to watch the presentation. I've got a number of my colleagues on the line for this Q&A session, which we intend to run for 30 minutes. So, for the first question.

Operator

The first question comes from Andrew Sinclair from Bank of America. Andrew, please go ahead, your line is open.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Thanks. Morning, everyone. Three for me as usual, if that's okay. Firstly, just when you look at flows across the business over the period since lockdown started till now, how has performance as far as across the Partnership, has there been a clear criteria of both Partners have been adopting quickly or are slower to the new world or is actually just pretty consistent across the partnership?

And secondly, was just on the Academy. Can you give us some color in terms of what you expect for new entrants since the Academy have in the second half of 2020, should be expecting to get bumper intake and likewise, what you're expecting in terms of graduates over the next couple of years?

And third question was just on the dividend. Just really looking at the portion that was retained with the 2019 dividend, that's clearly GBP60 million, just really wanted (inaudible), it seems fairly small in a Group context, can you give us a bit more color on the adverse scenarios that you see here and probably that was the right portion to retain?

A - Andrew Croft {BIO 5711239 <GO>}

Okay. Thank you, Andrew. I'm going to pass over to Ian Gascoigne to answer the flows and the Academy.

A - Ian Gascoigne {BIO 4439479 <GO>}

Okay. Hi, Andrew. Thank you. I think the first question relates to flows and whether some Partner businesses adapted quicker or whether it was pretty consistent across the place? I think it's fair to say the announcement of lockdown and the market downturn, there was some variety in terms of how Partner businesses initially reacted. So, some Partner [ph] businesses very quickly to adapt, took it as an opportunity, grow forward, didn't miss a beat and have shown growth over the period.

Other businesses slightly longer to adapt to come up to speed with the technology and what's required and the kind of psychological acceptance of how to respond to situation. So, it's not consistent across the community would be unfair to say that, but I would say that three months in, best practice is emerging, it is becoming more of a new normal and businesses have adapted very well through sharing with each of best practice and basically responding to client requests and meetings as appropriate.

On the second point on the Academy, I think the numbers are about 340 Academy students in play of various levels of the process and who will tend to graduate over the next 18 months or so. When we reopen the doors we will be reopening in the doors the normal rates of digestion. We don't expect a bumper, we're not going to double the size of the Academy in the final quarter or new joiners. What it may well do is the pent-up demand might actually have an impact of allowing us to be more selective in the quality of people who come into our Academy.

So that's the -- that would be my feedback from the Academy.

A - Andrew Croft {BIO 5711239 <GO>}

And I'm just going to pass to Craig for the dividend.

A - Craig Gentle {BIO 20095126 <GO>}

Yeah, the question on the dividend, the decision to retain the amount that we retained was a balanced decision that took account of the potential need to support a wider business in the event that certain, again potential extreme scenarios, which manifest themselves. With the need to make sure that we maintain shareholder returns, the description of the GBP60 million was modest. I think the reality is that combined with the resource that the Group has was sufficient to make sure that we are in a position to make value-added long-term decisions in the events of a very extreme shock to the Group. Those conditions haven't manifested themselves, but there's still a lot of uncertainty ahead, but really that decision goes back to the work we were doing in March-April when we first made the decision.

A - Andrew Croft {BIO 5711239 <GO>}

Thank you, Craig. Can we have the second question please.

Operator

The next question comes from Jon Hocking from Morgan Stanley. John, please go ahead, your line is open.

Q - Jon Hocking {BIO 2163183 <GO>}

Should we look at 2020 as a year where both through the Academy and experienced hires, we're going to see a below normal level of recruitment and then we'll get back to usual sort of 7% or so expansion in 2021? That's the first question.

And then secondly, I'd be interested in an update from Ian in terms of the behavior of the Partnership in terms of signing up new clients, and clearly the retention has been very strong, I assume it was harder to get new relationships at the moment, if you could give some thoughts there would be appreciated.

And then finally, in terms of Federal cash and dividend upstream, I just wondered and it's just that the liquid assets had come down GBP300 million or so from the full year. Given that you're going to make a single payment of the dividend next year, are you going to continue upstreaming from operating entities as usual, or are you going to wait and do that later than would have been normal given the environment? Thank you.

A - Andrew Croft {BIO 5711239 <GO>}

Okay. Thank you, Jon. I'm going to pass over to Ian again on the recruitment and new client experience.

A - Ian Gascoigne {BIO 4439479 <GO>}

Yeah, I think it's fair to say that net manpower growth this year will be below our normal range of what we've experienced and I would suspect that going forward will revert to a more normal range of recruitment next year this year. This year, it's fair to say we don't anticipate the 6% to 8% that we've been experienced over the last four years or five years.

In terms of new clients. This is the interesting dynamic, the good news is obviously that people can have face-to-face meetings again, and we've got COVID secure offices and so that, that moment in time where you couldn't see people face-to-face has past, but it is clear that Partners have through the use of technology discovered ways of engaging with people through the whole process and on-boarding them as clients without physically meeting them. And some Partner practices are doing this incredibly well, others had taken a bit longer to come to terms with that way of working. In fact, some Partner practices don't feel that as appropriate way of working and don't forget, there is 2,500 different business models, working with clients in their own particular way and some work with referrals and existing clients far more than a model where they will be on-boarding clients that they've never met.

A - Andrew Croft {BIO 5711239 <GO>}

Thank you Ian. And again, I'll pass over to Craig for the dividend upstreaming.

A - Craig Gentle {BIO 20095126 <GO>}

Yes, Jon, I think the figure that you're referring to is the all included within it, is the GBP810 million of fixed interest, so the investments in Collective Investment Funds actually is unrelated. A lot of the movements in that line, both up and down tends to be caused by different types of settlement in and out of the underlying funds and what we've seen during the first half was quite a sizable input to those funds in the form of the equivalents of tax credits. So, really what you're seeing there is the normal mechanics of working capital within the Group. But turning to your question, the way in which cash flows within the Group from the operating subsidiaries, the operating regulated subsidiaries into TopCo [ph], if you like for homeward [ph] use and distribution will remain unchanged, there'll be no change that we would see there.

A - Andrew Croft {BIO 5711239 <GO>}

Thank you, Craig. Can we have the third question please.

Operator

Our third question comes from Andrew Crean from Autonomous. Andrew, please go ahead, your line is open.

Q - Andrew Crean {BIO 16513202 <GO>}

Good morning all. Three questions if I can. Firstly, looking at your controllable cost per average adviser, they are still growing 6%, which is in line with the long-term average. Do you see with the advent of Bluedoor that you can get this growth rate down to more like inflation rate, and if not, why not?

Secondly, has the last six months caused you to reflect at all up on having a small loss making business halfway around the world? And what is the future as you see in the Asian business?

And then thirdly, could you comment on the average initial charge, both in Life and Pensions and in Unit Trust and ISAs compared with the 6% and 5%. I think one point you said, it was done to about 2.9%, is that still true?

A - Andrew Croft {BIO 5711239 <GO>}

Okay. I think I'm going to ask Craig to pick up the first two and I'll probably come on, on Asia as well. But Craig, do you want to pick up the first two on expenses?

A - Craig Gentle {BIO 20095126 <GO>}

Yes. So, controllable cost per adviser, I think it's fair to say that we would always have an ambition to reduce the controllable cost per adviser, if you use that uptick to look at the P&L account. I'm not sure though that Bluedoor would be the answer to that. Bluedoor is a back office that is certainly scalable, it's been worth its weight in gold over the last few months with lockdown and the need for electronic exchanges of information rather than paper exchanges. But I think the answer is likely to come through the normal economies of scale that you would see and it's important to remember that a lots of the benefit that we've had from Bluedoor has already appeared within the cash result, because the inefficiency of running the old systems was posted below the line and now those old systems are being switched off, that will no longer appear there. So, I think it's important to bear those costs in mind that have already exited with only GBP6.5 million below the line for the first half.

The other thing I will also say, Andrew, which I think is relevant to the question. When we plan our expenses, we do so based on growth plans and in this half year it's actually quite extraordinary when you think about it, because if we'd have taken a snapshot view of where we had very strong belief we were headed, say mid-February, you would see a fundamentally different outcome to the one that you perhaps would have seen, if you took the same snapshot in April. So, it was one of those half years, where the first quarter was one of real acceleration and then we will know what happened in the second quarter. So sometimes there is a need to plan for some of these costs, which are fixed in nature in order to accommodate growth you believe you can achieve. Whether that growth is expressed through the size of the business in terms of the number of advisers or the profitability within that business.

Asia, so I'll start with Asia from a financial position. I think it's fair to say that this is the second tough year that Asia has had in terms of the operating environment. I think in the last presentation, I did, I expressed some disappointment that we haven't gone at least Embedded Value neutral on those businesses, but the root cause of that was something that we understood very clearly. And this year has been very much the same. I would view Asia really as a microcosm of the wider Group, but it's a microcosm that doesn't have the benefit of 28 years of trading behind that. And therefore, the moment you do get any kind of deviation from a planned level of income, the cost base exposed itself to the way that the Group wouldn't necessarily do so.

A - Andrew Croft {BIO 5711239 <GO>}

Yeah, look, I think I'll just add there. If you look at the performance of Asia first six months, new business is up 22%. We now have SJP funds under management of around GBP1 billion, so we are building critical mass there and it's all about making sure that business now becomes -- efficient now, it's got critical mass and the investment will reduce over time and then start becoming positive. I'm going to try and say -- yeah, we remain committed, yeah.

I'm just going to pass over to Ian on the sort of initial charge question, and also why there would be differences as well.

A - Ian Gascoigne {BIO 4439479 <GO>}

So, hi Andrew. Yeah, as you know the initial advice fees agreed with the clients through the customers remuneration process and dependent on the complexity of the case, the client will agree the initial advice fee. In terms of Unit Trust and the bid-offer spread, that also includes our ISA portfolio and it's hard to argue that ISAs are a complex financial planning issue. And in Partners, in conjunction with conversations with the client, often do that for far a less than the bid-offer spreads. So, in terms some partners will actually give advice on ISAs at no initial charge and so the range across the portfolio is under 3% and between -- it's actually between 2.5% and 3% on an average for that portfolio of our business.

A - Andrew Croft {BIO 5711239 <GO>}

Okay. Thank you, Andrew. Can we take the fourth question, please.

Operator

The next question comes from Andrew Baker from Citi. Andrew, please go ahead, your line is open.

Q - Andrew Baker {BIO 20402705 <GO>}

Hi guys, thanks for taking my question. Three for me. Just, first, back on the dividend. Can you just remind me of the intent for the retained 3% of the full-year 2019 dividend? Is the intend to return this at a later date? And then also, as we think about 2020 dividend, is 80% of the underlying cash result still the guidance to be thinking about there?

And then second question is on, are you expecting any impact on flows from the FCA change in the DB-DC charging structure?

And then finally, are you able to give an update on whether you've seen any increase in under-performing or non-performing Partner loans in the first half? Thank you.

A - Andrew Croft {BIO 5711239 <GO>}

Okay, thank you for your questions, Andrew. I'm going to pass the dividend and under-performing one to Craig, it's quite good chairing these many things and --

A - Craig Gentle {BIO 20095126 <GO>}

So, the way I think we would see the retained dividend is the same today as it was when we talked about this last back in April. And yes, we do see this as a retention and it's an amount that we expect to retain until we are clear on what the final impacts on the Group is, of the conditions that we will find ourselves in, excuse me, at the moment. So, that is unchanged.

That part B of your question was on the guidance. And what we've said, just as a reminder, is that typically we would expect to distribute approximately 80% of underlying cash. We haven't changed that. And the only way to -- puts on that is the one that we always put on it, which is that -- that is the core approach that we would take, but then we would always take into account the results for any given period and critically, we would take account of the outlook at the points that which any dividend decision is made. And I suspect that's exactly the same answer as I would have given this time last year and the year before that. So again, there is no change there.

The third bit was on a question of underperforming Partner loans. The short answer is no, there has been very, very little movement there. And actually if you stand back and consider why that might be. Well, it's for the same reasons really. We have strong security, but that's not really what drives that outcome, what drives that outcome is the underlying success of the business and when you look at the sort of cash result that we're posting at the moment, that shows that there is underlying success and that underlying success is replicated across the businesses that have taken out those loans. So, we're in good shape.

A - Andrew Croft {BIO 5711239 <GO>}

And I'll answer the question on the DB change, I think firstly it is important to remember that doing a DB transfer is not right for everyone. And in many cases, it would not be the right advice, but in other cases it most definitely is the right advice. Not all of our partners are licensed to do this business. We have a high bar for acceptance and all business is pre-approved by our Business Assurance team which is independent to the Partnership anyway. So, a very high bar and most cases that goes through Business Assurance will be approved. And so, do we expect there to be an impact? I'm sure there will be a small impact on this, but we don't expect it to be a large impact.

I've also got Ian MacKenzie who looks sort of after the advice guidelines on the call and I might just ask Ian if he'd like to add anything to that.

A - Ian MacKenzie {BIO 18366729 <GO>}

Yeah, thanks Andrew. I think that covered it quite well there. In terms of sort of where the Partnerships are and the feedback we're getting from our advice policy perspective is that the changes will be embraced and indeed some partners who are specialists in this area see the changes increasing the demand for the specialism, because the advice and the decision to consolidate your DB pensions in the DC environment is for many of our clients and we're talking to the right advice for them and the right thing to do. And I would hazard against a number of people on this call would help them as well, been doing that journey. So, it is appropriate Financial Planning, Wealth management advice and the Partners are looking to embrace that going forwards within the new constructs.

A - Andrew Croft {BIO 5711239 <GO>}

Thank you, Ian. Could we go on to the fifth question, please.

Operator

The next question comes from Colm Kelly from UBS. Colm, please go ahead, your line is open.

Q - Colm Kelly {BIO 19140684 <GO>}

Thanks, thanks very much, and morning, everyone. First question just on margins, can you comment -- you commented on the net income cash margin on the average mature funds under management was within the guidance of 63 bps to 65 bps. Would you mind just telling us if the exact number for 1H and see if that's just the number I roughly calculated is falling slightly outside of that range, although clearly I've less information to work with.

And the second question is on adviser growth, clearly this year will be a bit tougher for adviser growth. But even though the numbers are quite robust at half year, do you think

COVID-19 might help accelerate adviser growth in future years given it has enabled SJP to showcase its digital capability and the value of the platform to non-SJP advisers? So I'd be interested in comments there.

And then lastly on recent press articles commenting on incorporating more passive funds within the fund offering. Just wondering if you could update on this, as opposed the current investment management process and selection process of actively managed funds is quite a core competitive advantage of SJP and is somewhat differentiated and very essential to the client value proposition. So, I'd be interested on comments around any potential incorporation of more passive funds into that offering? Thanks very much.

A - Andrew Croft {BIO 5711239 <GO>}

Good, thank you very much. I'm going to pass the margin question over to Craig.

A - Craig Gentle {BIO 20095126 <GO>}

Yeah, Colm, we weren't planning on disclosing the actual margin at any half year interim point, you'll be pleased to hear though that we did so last year for the full year and we will do so for the full year for 2020. The amounts as I've said in the presentation was within that range for the first half. And the cluster of estimates that we had when we were gathering consensus was actually reasonably tight, so I'm pleased at the very least that the guidance we gave has enabled people to have a pretty good estimate of the income for the first half. And I have to say that's particularly credible given the level of volatility we've seen within funds under management. So that's probably what I'd say on that.

A - Andrew Croft {BIO 5711239 <GO>}

Okay, thank you. Ian, do you want to pick up the adviser recruitment point?

A - Ian Gascoigne {BIO 4439479 <GO>}

Yeah, hi, Colm. And there is two or three things on this. The first one is, during previous market dislocations, there is absolutely a flight to quality and we are seeing in inbound calls from people wanting to hear a little bit more about SJP's proposition, particularly how we've adapted during this period. So, that's a very -- that's very positive.

The second is that we can afford to be more selective. I think the issue of quality going forward is more and more important than ever before. It always was important, but I think we can afford it be higher up the hierarchy now, so we can be far more selective.

And finally, there is the -- there is a slight issue in the industry in terms of selecting people who were appropriate for our business and that their own back catalogue and their own back book of business. My contain advice and issues that were not too happy with and so we have to turn them away. So, there's lots of dynamics in there. But coupled with the success of the Academy and the success of being able to place our advisers in our successful Partner businesses, I think the future is quite positive in that respect.

A - Andrew Croft {BIO 5711239 <GO>}

Thank you, Ian. I'll have Rob Gardner who looks after our Investment divisions. I'm just going to ask Rob to answer the question assets.

A - Robert Gardner {BIO 15404543 <GO>}

Thanks, Andy. Hi, Colm. So, a couple of things to kind of set the context. I think the first thing is that on the passive, I was misquoted in the press. So let me sort of articulate what the plans are. So, when I joined, one of the things I wanted to do was ensure that we have enough capacity our MA to ensure that it's never a constraint for growth. So we've built a capacity model out to GBP200 million, GBP400 million, GBP600 million and beyond. And as you know, based on our flows and our growth in our markets over the medium to long run, we will grow to GBP200 billion. So managing capacity in our fund is key.

To put it into context, SJP as an asset owner is one of the largest asset owners in the UK and it's the same size as Texas Retirement. We're really trying to think like a long-term asset owner. The second big drive that you will have seen from us is to position SJP really as the leading wealth manager in the UK around responsible investment on ESG. And so the key move this year was to increase our fund managers all being signed up to UNPRI and the release of our carbon footprint.

And so going forward, we're going to have four global equity building blocks. So we've got our Global Value one; we're going to re-profile and have Global Growth; and then Global Quality; and then the new fund is going to basically be a low cost, but I'll come back to what I mean by low cost. RI integrated but low carbon, so a key thing within ESG is how do we lower the carbon footprint of our portfolios. Our global equity funds have about half the carbon footprint of the MSCI and our goal is to continue to be able to put clients who want to kind of flatten that carbon footprint and demonstrate that that financial well-being in a world worth living in is going to deliver in line with the Paris Climate Court.

And then in terms of asset management. This is not passive, we're using a technique called systematic, which is really using algorithms and AI and machine learning and because of our size and scale, we can do this for about 10 basis points to 15 basis points. The average external fund manager fee is about 39 basis points. So I suppose to say, what and all of that is, that is not passive, in my mind that is high capacity, low fee, low carbon fund and that's the fund that was being talked about in the press.

A - Andrew Croft {BIO 5711239 <GO>}

Thank you, Rob. I'm conscious of time. So we try and take two more questions. So, could we go to the next question please.

Operator

The next question comes from Abid Hussain from Credit Suisse. Abid, please go ahead, your line is open.

Q - Abid Hussain {BIO 20229932 <GO>}

Hi, morning all, thanks for taking my questions. I've got three questions, if I can. I know you are out [ph] of time. So the first one is just on the client interactions. I was just wondering, June, July have you seen an increased willingness of clients to take face-to-face meetings or even transact virtually? Just sort of more color on what you've seen since these -- of the lockdown, please.

And then the second question was on your operational leverage. Thank you for the guidance in the 8% growth on the operational expenses. I was wondering if there's anything you could do further was a potential to reduce the expense growth below that, given the out-turn on flows might be might be looking at -- might not be as robust as a little bit like in the second half?

And then the final question is on the fund performances. Could you just give us an update or any color if there is available on the individual fund performances versus your benchmarks on a, say, one-year, three-year or five-year basis? Please.

A - Andrew Croft {BIO 5711239 <GO>}

Okay. Thank you, Abid. I'm going to ask Craig to pick up the operational gearing point and of course part of the expenses is to do with growth in adviser numbers as well. So, we get interconnected questions here, but Craig.

A - Craig Gentle {BIO 20095126 <GO>}

Andrew has stolen my first line. The question is quite specific though, is there something we can do? There is always something you can do, but there is then a question, should you do it? Because I would estimate over two-thirds of our cost base is sort of fixed in nature, it's property and people. And the overall framework that we have, which you see reflected in establishment expenses is all geared towards supporting the business as it stands today, but also accommodating the future growth, which we've consistently achieved.

So the challenge here is always to reflect on the cost base. But to ensure you can see through to the other side of whatever particular problem you may be faced with. And at the moment, I think we're all very clear that the next few months, and it could be the next six months, look very, very uncertain. But every time we've experienced something like this, whether it's this type of crisis or a financial crisis, there is another side and you need everything in excellent shape in order to benefit from that. So I think there is a short-term and a long-term answer here.

The way we see things at the moment, there's another side to this. And therefore the guidance I've given remains the case and that's 8% growth year-on-year with some benefit from the previous guidance I gave to reflect the fact that there is discretionary expenditure that can either be delayed or canceled. There is, then a long-term question and I can't really answer the long-term question, but needless to say if something would happen that really raised a question over that long-term growth potential. Then we're no different to any other business and yes of course, there are things that could happen.

A - Andrew Croft {BIO 5711239 <GO>}

Thank you, Craig. And I'm going to pass to Rob again, just on the fund performance point.

A - Robert Gardner {BIO 15404543 <GO>}

Yeah, hi. With nine portfolios, 39 funds and 70 sub strategies, I don't think I'm going to do the one, three and five-year performance. But I think a key thing to note is the average client with SJP invest in eight to 10 funds and those eight to 10 funds are designed to meet the goals within the risk tolerance of that client. And remember the key thing to financial advice is making sure the clients have a global allocation of equities, bonds and properties around the world.

Now our funds that are global and growth oriented have done very well and you all know that in the last five years, two-thirds of US stock market performance has been driven by just the FANGs and Microsoft and the US market makes up over 50% of global stock market returned. So our UK managers that have a bias towards value have done poorly, but they have done in line with what we'd expect, because they are UK and they are value-based. Our alternative funds on our platform again haven't fared as well as we would have liked and they are funds that we're working on.

So, an overall level and when we think about our funds, in terms of the funds under management, our Global Growth Funds have done very well in absolute and relative performance and where we thought over exposure to UK or value, they've underperformed over the last five years, but that's in line with the benchmark that was set as by managers.

A - Andrew Croft {BIO 5711239 <GO>}

Thank you, Rob. And Ian will pick up the client interaction point for these (inaudible) Partners.

A - Ian Gascoigne {BIO 4439479 <GO>}

Yeah, hi Abid, I think I don't want to generalize and say, but I think there are some interesting dynamics going on in the kind of psyche of clients at the moment. At the end of March, towards the start of lockdown and the market correction. I think there's a lot of anxiety amongst clients and the levels of interaction with their advisers was high. I think if we go forward, now I would characterize clients has been far more reflective and are open to deeper conversations with our Partners about their own life goals, wanting to be more organized, and actually what I would call a more reflective phase in this kind of weird world we're living in.

They also have their own personal risk appetite in terms of whether they want to meet their partner remotely through Zoom's call or actually face-to-face and partners are reporting high levels of desire for meetings and some clients are more than happy to have those meetings face-to-face with clients, obviously with social distancing, but in terms of wanting themselves to kind of have those conversations, they are keen to do it.

A - Andrew Croft {BIO 5711239 <GO>}

Thank you, Ian. And can we just a -- we're sort of over time, but we'll take one final question, please.

Operator

The last question comes from Oliver Steel from Deutsche Bank. Oliver, please go ahead, your line is open.

Q - Oliver Steel {BIO 6068696 <GO>}

Gosh, Just squeaked in before the bell, thanks for taking the question. I'll keep it to two. The first is your new business margin, the one that goes through the cash result. It was down 6% year-on-year, you got the 1% fall in gross flows. And I'm sort of surprised that it was down, because last year you said the ratios, the margin between the two effect that was down because of a fall in new business. It was new business much more leveled this year versus last year, I had a thought then you should or actually seen that ratio dip, because you should have seen a rising new business margin, not a falling one.

And second question is on the growth in the Agency numbers, it's up 1% year-to-date. Are you still seeing a circa 5% per annum retirement rate to the older Partners? In which case, we've seen a sort of slight sort of mix shift towards young and experienced partners implicit within this calculation?

A - Andrew Croft {BIO 5711239 <GO>}

Okay. Thank you Oliver, I'll pass to Ian first to do the growth in the agency and then I'll leave Craig to finish.

A - Ian Gascoigne {BIO 4439479 <GO>}

Yeah, hi, Oliver and well done on just making the cut there, I was pleased to hear your voice. In terms of the recruitment, we're not seeing any real trends of early retirement or older partners jumping off at the moment, we're not seeing that. We are seeing a greater number of useful professional people wanting to come into the business. And as you know, the Academy and Next Generation has produced some great candidates and there has been a driver of growth over the last three or four years for the business. I think next year will revert back to normal growth levels; this year, it just didn't seem appropriate to be very active in recruitment at the start of the COVID period.

A - Andrew Croft {BIO 5711239 <GO>}

Alright, thanks, Ian. And Craig, do you want to just pick up the operational gearing point in the new business margin.

A - Craig Gentle {BIO 20095126 <GO>}

Yeah, and that's exactly what it says. Hi Oliver, it is that operational gearing point with certain costs that are pre-determined and therefore I'd describe a short-term fixed costs, so with a 2% fall-in in gross flows you begin to get a non-linear comparison to some of the fixed costs that go into that calculation before any new business is written. And it's always the case that in periods where you have lower flows than you anticipated that will be a cost, but for many years, it was a benefit, but not clearly visible because obviously by the sides of that new business, margin are very, very large figures.

Q - Oliver Steel {BIO 6068696 <GO>}

Thank you.

A - Andrew Croft {BIO 5711239 <GO>}

I'm going to draw it to a close everyone. So, thank you very much for coming into the call. I think it's probably a bit of a new experience doing an investor presentation on a call like this. So, thank you.

On the sort of also apologies for anyone that had some questions and we've run out of time, but do please contact Hugh or Tony with any outstanding questions and we'll get back to you. So, thank you everyone.