Q2 2017 Earnings Call

Company Participants

- Andrew Martin Croft, Chief Financial Officer and Executive Director
- David Charles Bellamy, Chief Executive Officer & Executive Director
- Ian Stewart Gascoigne, Executive Director and Managing Director

Other Participants

- Andrew Sinclair, Analyst
- Andy Hughes, Analyst
- Benjamin Bathurst, Analyst
- Colm Kelly, Analyst
- Lance M. Burbidge, Analyst
- Ravi Tanna, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen, and welcome to the St. James's Place Half Year Results for 2017. We are now going live into the presentation room, where we'll hear some silence until the call begins. Thank you for your patience.

Thank you for holding. This call will begin shortly.

David Charles Bellamy {BIO 14025555 <GO>}

Take your time. Okay. Good morning, everyone, and thank you for joining us this morning. As is usual at our interim results meetings, I'll run through the new business and advise the numbers we released earlier today, hand over to Andy to talk about the financial performance, the profits, the dividends, and I'll spend some time talking about the environment we find ourselves operating in and a little more about the future. We then, as usual, will take questions at the end.

As I said at last year's interims, I said and I quote, "it's an understatement to say that it's been a very unusual and unprecedented six months with much volatility, increased uncertainty, political hostility, and a somewhat divided population." And here we are some 12 months on, and that quote pretty much holds true today, political uncertainty, divided population, political hostility and so on. I went on to say that we're a resilient bunch nevertheless, and the month post Brexit, we're beginning to see some order being restored. All we have to do is replace the word Brexit with general election, and here we go again.

However, while some of the order's been restored and the government is trying to stabilize the political environment, it remains very fragile. There's nothing fragile about our business results though, they're proving to be as resilient as ever. Gross inflows are up 29% for the quarter or £3.6 billion and up 30% year-to-date at £6.9 billion. And that's equivalent to gross inflows of over £55 million every working day. The growth is even more impressive when we look at net inflows, they're up 35% in the quarter and 40% year-to-date at £4.3 billion. And that growth in net inflows together with the strong performance of our investment portfolios have driven our funds under management to £83 billion, up almost £8 billion since the start of the year, and up almost £18 billion over the last 12 months.

To emphasize the resilience point, let's look at the trends underlying those numbers. Here's a chart that shows the quarter-by-quarter breakdown of our gross inflows. And you'll see quite clearly just how impressive and how consistent the company is at growing its business. One other attractive feature of our gross inflows is how well they spread across our three tax wrapper groups.

Unit trusts and ISAs are up 32%, pensions are up 33%, and bonds are up 20% year-to-date. A similar consistent picture is reflected in the net inflows chart, and consequently, the growth in funds under management reflects that consistent growth, up nearly £18 billion over the last 12 months and £80 billion since the start of the year.

One of the drivers of the growth in inflows is, of course, our growth in capacity, i.e., the number of advisors we have with us. You remember that in previous years, we've talked about the changing shape of the partnership. Our partners today are more reflective of a population of business owners, or SMEs as I've referred to them in the past, planning for their own growth and recruitment of additional advisors, support staff, looking to develop sustainable businesses for the future. Hence, today, we focus on total advisor numbers since this is more relevant indicator of our capacity.

For the half year, total advisor numbers were up 3.7% on the start of the year, which, together with the pipeline, is well on track to achieve our full-year objective of growth in advisor numbers of between 6% and 8%. The other driver is the amount of business generated per advisor, what we've traditionally referred to as productivity. We measure that now as well at an advisor level. And as you'll deduce from our strong business growth thus far this year, a substantial proportion of that growth is coming from increased productivity across the board. Productivity per advisor is up 19% year-on-year, which is further evidence of the strong momentum behind these numbers. Our advisors have never been busier as the demand for face-to-face relationship based advice continues to grow.

So that's it to start with, a brief overview of the very strong business results released to the market this morning, 30% growth in gross inflows, 40% growth in net inflows, taking our funds under management to £83 billion, and a very strong underlying momentum in the business.

So, let me now hand over to Andy, who'll take you through the financial incomes arising from this growth, and I'll come back a little later with a little bit more color around the results once he's done that. Andy?

Andrew Martin Croft {BIO 5711239 <GO>}

Thank you, David, and morning, everyone. A great set of figures, which continues the recent trend we've been experiencing. And naturally, the strong performance is reflected in all the financial metrics, which has enabled the board to increase the interim dividend by 25%, and more about this later.

So this morning, I will be the covering cash and EEV results, followed by the dividend, before finishing with some commentary around solvency. In line with recent presentations, I will not be spending any time on the IFRS result, albeit there are slides in the appendix at the back of your pack. Having said that though, with the IFRS underlying profit before shareholder tax up 44%, it was very tempting to say a few words.

So firstly, let's look at the cash result. The net annual management fees for the six months were £297.8 million compared with £235.7 million, growth of 26% and in line with the growth of average funds under management over the period. Now within the cash result, these annual management fees are the most important contributor to the result, with three key drivers to the outcome in any particular year.

Firstly, the average fee we earn, where the post tax blended rate continues to be around 77 basis points. Secondly, net new funds under management, and thirdly, the investment return we achieved on the funds. Therefore, all factors being equal, the second half of the year will be higher than the first half. Typically, we experience a 48:52 split in favor the second half of the year, and this would not be an unreasonable sense check for your models, albeit clearly, a material change in investment return would have an effect on the outcome.

The reduction in fees in the gestation period for the six months were £130 million compared to £86.9 million, an increase of some 50%. Ordinarily, the growth in this number would be more in line with the 26% growth in the net annual management fee. However, as noted in the 2016 full year results, the £237 million timing benefit arising from the reassessment of unit liability reverses over the period 2017 to 2022. Consequently, there is an additional £20 million or so cost from this effect reversing in the first half of 2017.

So, our net income from funds under management for the six months was £167.8 million compared to £148.8 million. You will know that as those funds under management within the gestation period mature, so does net income figure will increase. At the end of June, you can see that we had £26.8 billion of funds still within the gestation period, with an embedded annual post tax earnings of some £206 million. The £1.1 billion will mature in the final half of the year and contribute to cash earnings for the first time.

As an aside, you can see the increasing size of funds to emerge from gestation in the coming years. The margin arising from new business in the six months was €59.4 million, significantly higher than the €20.5 million for the prior year. This contribution has also been impacted by the reassessment of unit liability as the cash margin on new business is higher at the expense of ongoing margin to the gestation period.

As a reminder, this reassessment was all about timing rather than changing the overall economic profit. This contribution is dependent upon the mix of new business and in the case of pensions, whether the business is in respect of pension savings or active retirement pensions where the initial cash margin is lower.

I'm turning now to establishment expenses. The expenses for the first six months was €73.6 million compared with €60.1 million for the prior year, and there are two important points to note here. Firstly, the 2017 number includes the full six months' running cost of €5.8 million for the additional office space we occupied during 2016. The comparative, on the other hand, included a cost of only €2.1 million, reflecting the timing of when the space was occupied.

And secondly, the higher level of gross in net inflows we have seen naturally increases of cost. And as a rough rule of thumb, every additional 2.5% growth in new business over our stated aims brings an additional 1% growth in establishment cost. And taking these two factors into account, the expense outcome for the six months is more or less what I would expect. On one consequence, our strong new business growth is therefore a slight dampening impact on growth in cash today, but it is obviously positive for future cash returns. There were small increases in operational development costs and regulatory fees, while frustratingly, the post-tax contribution to the FSCS levy of £16 million was again at an elevated level. Despite this now being the third consecutive year of significant contribution, we do still expect the levy to fall in future years as the number of historic claims decline.

In addition, we are supportive of the SDA (12:27) review of how the FSCS scheme is funded. You will recall that this cost is fully expensed in the first half of the year, so there should not be a corresponding cost in the second half. Shareholder interest for the six months was £5.7 million compared with £4.7 million, whilst the tax relief from capital losses was £9.3 million compared with £7 million. The amount of capital losses we can utilize in any particular period depends upon the number of factors, including investment markets. In a steady state, we would expect to utilize £4 million to £5 million in a half year.

And then taking into account a small negative £4.2 million miscellaneous impact, the total operating cash result for the six months was £139 million, growth of 35%.

Now whilst our business is not particularly seasonal, the second half of the year tends to be stronger than the first half, reflecting both increasing funds as the year progresses, together with the FSCS levy being fully reflected in the first half of the year.

Now we continue to invest in a number of strategic investments for the future, with expenditure on the Academy of £3.3 million and net investments of £7.5 million on the Asian operations, a net investment of £2.8 million on DFM, and cost of £2.3 million relating to broadening and enhancing our client offering.

Now, for both DFM and Asia, it's important to note these numbers include the income these businesses receive on their respective funds under management. In other words, these fees are not included in the net annual management fee of £297.8 million we covered earlier. Now, David will provide an update on all these strategic initiatives later.

After deducting these investment costs, the underlying cash result for the six months was £123.1 million, growth of 30%. The back-office development cost, which we showed below underlying cash on the basis this would not be a long-term cost, was £8.2 million, at a similar level to last year. David will also be commenting on this major infrastructure development.

Now during a period where we're running dual systems, we are not expecting to see any of your cash benefits, indeed, the opposite. However, you will see in a moment that we are starting to see benefits in our embedded value projections. And this is encouraging as cash will ultimately follow.

Finally, on cash, there was a small negative variance of £3.6 million compared with an equally small negative last year of £3.5 million. And this provides for a total cash result of £111.3 million compared with £82.5 million, growth of 35%.

Moving now onto the EEV and looking at the key elements of the result. The new business contribution for the six months was £343 million compared with £228.9 million, growth of 50%. This result reflects not just the growth in gross inflows, but also the expected long-term economies of scale resulting from the tariff we pay on the new Bluedoor platform, and let me give you a brief explanation. As you know, the EEV new business contribution represents the net present value of the expected future cash flows from the new business written during a period. This includes the initial margin less the initial expenses, together with the future annual management fees, less the future maintenance costs, the bulk of which relates to the third-party tariff. Even the average duration of our client investments, a small saving in the maintenance tariff amounts to a significant saving over the life of the plan.

So in other words, within the EEV new business margin, we're now starting to see the financial benefits of Bluedoor. There was a positive experience variance of £17.8 million principally due to the continued stronger retention than the assumption in the EEV calculation.

(17:06) are the investment costs associated with the Academy, Asia, other strategic developments and Bluedoor of a combined £23.5 million compared with £17.6 million. The distribution business contributes the negative £20.7 million compared to the negative £17.5 million. Both years were adversely affected by the elevated FSCS levy. Share option and associated costs for the six months were £15.9 million compared with £7.5 million. The additional cost in the current period reflects the higher share price, together with an increased assumption of awards achieving their performance targets.

Finally, other contributed a negative £9.5 million compared with a negative £5.7 million. The major difference relates to a £3.1 million higher corporate matching to the foundation. This reflects the record fund raising by our community in the first half of the year, together with a double matching from those contributions.

And taking all these into account, the operating profit for the six months was £397.3 million compared with £284 million, growth of some 14%. The investment return on our funds during the period was 4% higher than the assumed return, resulting in a positive investment variance of £214 million. The stronger investment return together with the small positive economic assumption change provided for total pre-tax EEV profit of £622.9 million, which compares to a profit of £442.7 million, so growth of some 41%.

And finally, on the EEV result, the net asset value per share at the 30th of June was 976.7p, which is up 8% since the start of the year and 23% over the 12 months. Both strong cash result and an even stronger EEV result, what does it all mean for the dividend? Well, we announced this morning that the interim dividend will be increased by 25% to 15.41p per share. And importantly, we anticipate increasing the full year dividend by a similar amount.

The interim dividend will absorb around £81 million, which represents some 70% of the half year underlying cash result. However, it's important to remember that the interim dividend only accounts for 38% of the full year dividend. So in all probability, the full year payout ratio will be higher.

And going forward, we will continue to grow the dividend in line with the underlying performance of the business. And whilst the underlying cash result remains a key consideration in our decision-making process, this cannot be viewed in isolation. We will also take into account levels of gross and net inflows, funds under management, expenses, the development of the partnership, market conditions, et cetera, et cetera.

Moving now onto my final subject for this morning, solvency. As you are aware, we manage the solvency of the business so that any point in time, we hold sufficient assets to match the encashment value of clients' investments. In effect, what would be needed for 100% mass lapse. We also hold this with an additional management solvency buffer as prudent protection against other risks. That is not to say we do or, indeed, can ignore the Solvency II calculations or ratios. However in all but the most extreme scenarios, the approach we adopt is more cautious than the Solvency II calculation since we take no credit for future profits.

And just for the avoidance of doubt, we use a standard formula in calculating our CSR and do not make any use of any other matching volatility or transitional reliefs. Now, I don't intend to cover Solvency II further this morning, but for those who are interested in the estimated Solvency II position at the 30th of June, this is also included as an appendix in your packs. Now when considering the solvency position in our way of looking it, you'll see that the solvency of the two life companies remains strong with assets over our solvency buffer of £185.6 million at the 30th of June, whilst the management solvency buffer is currently £437 million. You will recall at the end of 2017, we increased the MSB by £267 million to match the increased net assets arising from the reassessment to the unit liability.

At the February results announcement, I said we'd be undertaking a reassessment of the MSB in the second half of the year as part of our annual ORSA process. This remains the case, so there's more news to come. And that's me finished, and I hope you agree that there's been a strong financial performance in the first six months of the year, culminating in a 25% increase in the interim dividend. And this continues our history of 25% compound growth in the dividend over the last 11 years.

Now, as you know, at the end of the year, I'll be taking over the CEO baton from David. As well as being a massive privilege and honor to assume this role, it also means I will never have to say the words (23:06) again.

So, thank you for your attention, and I'll now hand the stage back to David for his last time.

David Charles Bellamy {BIO 14025555 <GO>}

Thank you, Andy. I hope you agree, some really excellent financial results driven by some excellent new business figures, demonstrating once again the strength of the business model and the continued resilience of St. James's Place. Given the fragile political environment and the uncertainty around Brexit and the economy, a number of commentators question how we're able to maintain such strong and consistent results. And clearly, there wasn't a simple answer. Much as I'd like to say it's all down to quality leadership, it isn't that simple. And in practice, it's to do with a number of things. Firstly, there's our investment approach.

Continuous improvement and development of our investment approach led by our investment committee, and the fund managers we utilize ensures that our clients can rely on the fact that we'll look after their investments that they entrust with us. We'll keep them safe, give them decent returns, and ensure that they don't have to worry about that aspect to their financial affairs. The breadth of our investment proposition is such that the vast majority of clients have very diversified portfolios, spreading the investment risk and consistently delivering good returns. Year-to-date, all of our investment portfolios have outperformed their arch peer groups. And a similar picture emerges when we measure that over a five-year period. And by way of a reminder, the peer group is comprised of a very comprehensive list of names.

Secondly, it's due to the strength and quality of our advisor community, the St. James's Place partnership. They are amongst some of the best and most experienced advisors in the business, with, on average, almost 20 years experience, they know what they're doing, and are very well versed with the issues most clients face today. And they have a FTSE 100 business with nearly 2,000 employees backing them up and supporting everything they do. As I said in my presentation earlier in the year, they're no longer one-man bands either. Whilst in total they number some 2,400 of what we call partners, they have support teams entirely funded by them, taking care of their back office and their administration needs. Those partner support teams, as we refer to them, total some 5,000 people and are complemented by a further 1,000 supporting advisors. And we can well imagine that their number will grow in time such that pretty much every partner's practice has at least one additional advisor to support the provision of ongoing advise and service to their increasing number of clients and funds under management. They also prove their businesses for some of our Academy entrants to join as they graduate from our Academy. This year, we expect a further 100 advisors to graduate largely from those that joined us two years ago in 2015. On alongside those people leaving the Academy, it continues to attract high caliber individuals who've chosen to build a new career with us. Already this year, 88 new students have joined the academy compared to 75 in the first six months of 2016. Thirdly and linked to the partnership is the support we're able to give them to ensure, A, that they're equipped to give the most suitable advice at all times, and, B, they have the most experienced and extensive technical support to ensure they're up to date with all the necessary tax and regulatory rules in the climates. Our compliance, risk, legal and technical teams are all there to support partners, and keep them, our clients and us safe.

The consequences of their support are perfectly illustrated in the recent thematic review on suitability and disclosure carried out by the FCA. Their thematic review looked at over 1,100 case files through two lenses, was the advice provided suitable and were the regulatory requirements for the disclosure of advisor status, charges and costs complied with. The FCA engaged with a number of firms, including us and several hundred IFAs. And the results were published by them in May. And they show that across the industry, 93% of cases looked at demonstrated that the advice to clients was suitable. This is clearly a really good result for the industry or profession as we should now refer to it. And encouragingly, those percentages were pretty consistent across all channels.

When it comes to demonstrating compliant disclosure though, just 53% of cases looked at demonstrated that they complied with the regulators' disclosure requirements. And within that result, just 40% of IFAs compliant. Now, whilst the FCA were disappointed with the disclosure results, for me, they just illustrate how hard it is for small organizations to keep abreast of what's required of them, and importantly, what their clients should receive by way of disclosure documents.

As I said, we were part of this thematic review, and the FCA selected some 65 of our cases at random. Our results were over 90% in both cases. Over 90% deemed suitable advice and importantly, over 90% have the appropriate disclosure of status and charges. Clearly, good results for us, and as I said, evidence of our ability given our strength and the resources available to the partnership to ensure that our advisors are fully equipped to do the job as required of them.

We also ensure that they receive all the necessary technological and IT support so that they have the digital tools necessary to provide clients with the service they require in the way that they require it. At the same time, we can ensure that the data management, cyber security and business submission processes are all as they should be.

As I said, quite how small advisor firms keep abreast of the plethora of rules and regulations, not to mention the complexities of tax in this day and age, must be a real challenge for them, and potentially a risk for them and their clients. And sadly, has a consequence for us, too. Firms, and they are mainly IFAs, that don't keep up to date with the rules and regulations often don't have the resources to carry out the appropriate due diligence on the investments they put out, which in turn means that invariably, some fail, costing their clients significant distress and ultimately, money, causing the FSCS levy to pay out substantial sums in compensation, which falls on companies like us to make up.

And as Andy said, our contribution to this year's levy is yet another £20 million, the third consecutive year of near maximum contribution. Frustrating for all of us. Moving on to the fourth reason why we're doing so well today, and that relates to the environment we work in. Not only are there complex rules and regulations to adhere to, our lives are more complicated today.

Tax is more complicated today. The rules around pensions, tax relief, drawdown are more complicated today. Even ISAs have become overly complicated with 7 different versions. We're living longer. Most of us don't have final salary pensions to fall back on. And those that do are being offered extremely attractive transfer values to encourage them to exit their companies' scheme. And as you will know, the issues associated with that decision are far from straightforward.

And the fact is that as the overall wealth increases, an increasing number of people now, they have the time, inclination or confidence to want to handle these things for themselves. And so they look for someone they can trust to advise them, and that's where we and our partners come in, some of the most experienced and trusted in their field supported by the substantial resources of St. James's Place.

So four key reasons, why we're doing so well. Our investment approach, the St. James's Place partnership, the support we have behind them, and the environment we find ourselves in today. And are any of those fundamental drivers going to change any time soon? I don't think so. If anything, the momentum we've experienced in recent times is set to continue. Our target market is getting bigger, as evidenced by Datamonitor's annual research, and personnel responsibility is here to stay. Pensions deficits and the challenges of funding care in old age the world over are all further evidence of that fact.

Having settled that though, the next few years, we'll see much change. Firstly, there's Brexit and its consequences. As you know, we are essentially a UK business. Aside from small operations in Dublin and Asia, we are pretty much unaffected directly by the machinations of the negotiations over trade agreements. And leaving aside the possible impact on the economy, I suspect the majority of our clients are not directly affected by Brexit matters either.

Of course, none of us know the full consequences of Brexit and how it will play out, and we're certainly not complacent. But given what I've said already, you'll see that the impact for us is of second order. Secondly, there's the asset management study in MiFID II. Whilst the new regulations would impact the asset management industry, and in a not insignificant way, aside from implementing the various disclosure requirements arising for both initiatives, the impact on us is, again, of second order. We don't need any new authorizations, we already negotiate largely institutional fund fees for our clients' retail funds, and I'm confident that the fund managers who manage our clients' funds will respond to the changes required of them appropriately.

And finally, I want to say a few words on the advice market generally and more specifically on the value of advice. In the run up to RDR, a number of companies were being encouraged to invest in digital to reduce the – of the reliance they had on advisors, to revise their strategies so as to focus more on the D2C market.

We resisted that pressure because we believed in the value of advice and still do. I like to think of us as a conviction business, business committed to building long-term relations with clients, serving them well, and providing sustainable and trusted advice. And if we do that well and clients perceive we provide value for money, thus, stay with us, hopefully entrust us with more of their wealth, and refer others to us.

And to assure that we didn't take any of that for granted, a few years ago, we enhanced our annual client survey so as to give clients, that's every client, the opportunity to tell us every year whether they do value what we do and whether they thought they provide us value for money. And as you know, their overwhelming response to-date has been yes. 98% of them, year-on-year, said that we provided and delivered value for money. And this year, over 40,000 of them have reinforced that response with similarly strong scores on retention, satisfaction, referability and access.

What's reassuring though is that other research is coming to the same conclusion regarding the value of advice today. But the information published in the (34:33) baseline report recently, jointly sponsored by the Treasury and the FCA, and a more recent research paper from an organization called ILC-UK, that both highlight that across the industry, clients are valuing the advice they receive.

The latter open with – open their 45-page report with the following line. This report demonstrates the very real value of financial advice for the consumer. It goes on to say, those who take advice are likely to accumulate more financial and pensions well (35:03), supported by increased savings and an equity asset. Whilst those in retirement are likely to have more income, particularly at over ages. And it concludes, advisers are good value for money. The benefits of advice outweigh the cost associated with it. And, of course, we agree.

And the FCA's recent paper on retirement outcome also reinforces the fact that following the pension's freedom initiative, most people need help with the choices available to them and should seek advice. Consequently, our future strategy remains very focused on the provision of a financial advice, and that remains the key for our future growth. The marketplace is big and growing. Advances in digital technology helps add value, provides easier access to data, and enables straight through processing, but will never, in our view, replace the human interaction our business is built on.

Whilst on the subject of technology, I've already referred to some of the initiatives we (36:04) to support the partnership. Included within these are a range of mobile apps and client-specific reporting tools, which gives them greater flexibility to service their client relationships.

But by far, the biggest technology initiative we're investing in is, of course, our investment in the Bluedoor platform. Pretty much two-thirds of our new business today is processed on that platform. And whilst there is some additional development required to deliver the straight through processing for that business, once we've completed this, we'll begin the next migration phase and complete the new business build for bonds.

So before I close, just a few words on some of our other recent initiatives. In the last year or so, we've increased our focus and support we provide to our partners, helping them to acquire and service truly high net worth clients. Our dedicated Private Clients team is engaged for the partnership in a number of ways and gaining real traction. That's resulted in a number of households investing over £1 million with us, being up 38% in the first six months of this year, with over £400 million invested in that period.

Rowan Dartington also continues to grow and very much in line with the business trend. A number of investment executives and funds under management are up 21% and 35%, respectively, over the last 12 months. And we're very pleased with the progress today and the momentum that's building in that business. We're also making good progress in the provision of products and services to help our clients with their borrowings and cash management requirements.

As you know, in 2015, we introduced secured lending for our clients in conjunction with Metro Bank. Since then, we've continued to build a range of services we can offer for this aspect of our clients' needs. We've launched a further range of savings accounts with Metro, established a panel of banks to serve our higher net worth clients, including Weatherbys, Hamden (38:00), Investec and (38:02). And more recently, we've launched a cash management service in conjunction with Flagstone.

And lastly but by no means least, our Asia business is developing nicely, too. My latest visit to our three locations in Asia recently reinforced the opportunities those markets present. Also client engagement, increasing recruitment activity, and lots of potential for the medium to long-term. We've launched the required life company in Hong Kong, we'll be implementing new investment portfolios in the next few months, and we'll then be in a good position to grasp the opportunities those markets present to us. Advisor numbers are growing as our funds under management. And I'm looking forward to spending more time on our Asia business, working with the local management teams there soon. It's an exciting marketplace.

And so that brings me to the end of my last analyst presentation as CEO of this outstanding business. And at the end of the year, I will hand the baton over to Andy, and he is absolutely the right man for the job. I know the baton will be in safe hands. He has an incredibly strong and pretty useful team behind him. And he'll also have me around for a couple more years as we try and effect a soft exit as opposed to a hard exit; an orderly transition, as you might expect. Meanwhile, so for the next few months, we'll focus on the remainder of this year and do our best to build on the exceptional results we've announced this morning as summarized on this slide.

So, thank you for your time today. And thank you for the support that you've extended to me over the last 11 years and to St. James's Place, and we'll now be pleased to take any questions you may have. Thank you.

Q&A

A - David Charles Bellamy {BIO 14025555 <GO>}

Who wants to be first? Okay. We at the back here, move up.

Q - Ravi Tanna {BIO 16926941 <GO>}

Good morning. Thanks, everyone. It's Ravi Tanna from Goldman Sachs. I have three questions, please. The first one is on the Bluedoor investment project. Now, you referenced the fact that the embedded value, new business profits benefited strongly from that. And I was wondering if you could give us a sense of when those operating leverage benefits should start to play through into the cash results, what the rough quantum is. And you referenced there as well that there's still some – the bonds that need to be transferred across. So could you give us some line of sight on that, please?

The second question is on the FCA reviewing the platform markets. I guess, the comments in there that were potentially interesting, I suppose, were on the vertical integration or the conflicts of interest within vertically integrated models, as well as there was a reference in there around providing visibility to clients on passive funds, alternatives. And I was wondering if you could comment on those topics, please.

And then the third question was, again, on Bluedoor. One of your peers obviously switched across from IFDS to another provider earlier in the year. And I was wondering if you could just give us a sense if that's had any impact on you, either positive or negative. Thanks.

A - David Charles Bellamy {BIO 14025555 <GO>}

Well, we'll work backwards. (41:23) think about the – when we're going to get the cash benefits of Bluedoor. So, the change in Bluedoor clients, so the other company. I don't know why, but it feels wrong for me to mention the name. So, we'll talk about it as the other company. No, it has – I think largely positive. You know us, we view things through a very positive lens anyway. That frees up a bit more resource and enables a little bit more focus on the Bluedoor platform from our perspective.

There's clearly some negative consequence on Bluedoor in terms of confidence in the platform, hasn't damaged ours. There were some unique challenges, I think, going on in that relationship that we have been aware of for the last 12 months or so, and it was a shock but not a surprise. And so, I don't think any major consequences coming from that apart from we should get more resource and more attention, which will be helpful.

In terms of the platform study, look, it's early days. The platform study isn't aimed at us. It isn't part of our world. In fact, the advise and (42:36) thing is explicitly removed from it. What it does say, what Chris Woolard have said is that they want to sort of benchmark with some of these other businesses. So, there are pure platforms and then you've got some vertical integration. I think the challenge with vertical integration is that there are some companies that sort of get into that world a bit, but not totally. And the conflicts that are referred to in the paper are largely where you keep your own in-house management, managing clients' funds, and then you report to have open architecture. We don't have that conflict. And so, it – we're very delighted for anybody to come and look at our investment approach. We're immensely proud of it. It is 100% into the marketplace where we select as good a managers as we can find across the planet, negotiate hard, get those wholesale rates into retail markets, and it works incredibly well. And so regulators want to come and use that as the benchmark, perfectly happy with that. And we'll take it as it comes with it. I've given you enough time to talk about when the cash is coming. Must be soon, actually. I...

A - Andrew Martin Croft {BIO 5711239 <GO>}

I was ready a lot earlier. The important thing to – what I meant is that I'm going to talk about, if everything, is on Bluedoor. And then we'll go back to answer some of your questions.

So when all the business is being processed on Bluedoor, as I said previously, we'll expect a double-digit percentage saving in the tariff that we're paying today. That's both in terms of the new business, and that's why you're seeing some of that coming through in the embedded value and also the maintenance fee.

And there's a lot more gearing in the new contract than the old contract as well. So the more business you put on there, you're covering the fixed cost with more business. So, it'd be very positive once everything's on there. At the moment, we're in that phase where we're running dual systems. And as I said in my presentation, that means we're not really getting any cash profits, in fact, the opposite at this moment in time. There's probably another 18 months or so to go before everything is being processed onto the system. We have to both develop the new business for bonds, the new business capability, but more importantly, we have to migrate the pensions and the bond business. What we can't do is migrate this before we're ready because that would cause all sorts of issues. So we will be very cautious on when we do it.

A - David Charles Bellamy {BIO 14025555 <GO>}

Okay. We have (45:10) then we'll come back to you, Andy. All right?

Q - Colm Kelly {BIO 19140684 <GO>}

Colm Kelly, UBS. Thank you for taking my questions, I have three. Firstly, on the dividend, aside from all the metrics that you've highlighted as being important for the assessment of the dividend, when we think about the solvency, is it more priority for the board and management, the solvency based on management solvency buffer or the regulatory solvency position? Because we've obviously seen a significant strengthening of the solvency based on the management solvency buffer. And as indicated or strongly indicated, second half of the year, you may also see that coming through again, whereas the solvency on a regulatory basis is more stable.

The second question, again on Bluedoor. The expense assumption change is in the new business contribution. Has that been based on purely an expectation of expense save or has it been also supported by current actual experience? I do appreciate that there are these stages, but has the actual experience today supported that (46:22) change? And then finally, on international expansion. In the full-year report, there was a commentary around the board's assessment of the practicalities and opportunities of potentially entering the Middle East. Is there any update as to progress around that? Thank you.

A - David Charles Bellamy {BIO 14025555 <GO>}

I won't stop you...

A - Andrew Martin Croft {BIO 5711239 <GO>}

Okay.

A - David Charles Bellamy {BIO 14025555 <GO>}

...going quickly.

A - Andrew Martin Croft {BIO 5711239 <GO>}

So, I'll do the – I'll carry on the Bluedoor theme first. It would be probably a sense for one (46:51) to do. So, we know what the tariff is for each case, so essentially goes through Bluedoor. So that's what we're now factoring into embedded value when the business is being processed on Bluedoor, as both the new business cost and the maintenance cost, which clearly will go up with inflation as well, but that's all part of the assumptions. So, it is what we will incur going forward. Does that answer the question?

It's difficult to say because it's so early, whether or not that's what we're experiencing. It sort of has to be because it's what we're paying (47:27).

Q - Colm Kelly {BIO 19140684 <GO>}

Yeah. As long as the actual experience so far is (47:33).

A - Andrew Martin Croft {BIO 5711239 <GO>}

Yeah. Yeah, yeah, yeah. Absolutely. On the solvency and, therefore, the dividend, as I was commenting in my presentation, we view solvency through this management solvency buffer. We can't ignore Solvency II because we just can't, it's obviously an important metric, but the MSB should always put us into a more prudent position.

Now, we assess the MSB as part of the whole ORSA process. And this time last year, our MSB was lower because we haven't done the unit liability mismatch. And so we will reassess the MSB, but I would expect it to be coming down, not going up. But again, I'm not going to put any numbers to that at this stage. There's too many board members in the room

In terms of international, slowdown, I think, is probably the best word I'd put around it. So, not going away totally, but short-term focus very much on Asia. Deal with the growth that they were clearly very positively facing in the UK, look down consequences of MiFID II, disclosure changes, technology, platform study, whatever the outcome, asset management study. There's quite a lot going on right now, and we've sort of taken the view that actually, much as we want to look into that space in the years to come, best thing for us to do from a managerial position is focus on what's here and there. So it's gone down the packing order, so to speak.

A - David Charles Bellamy {BIO 14025555 <GO>}

Right. So, Andy was next, and then we'll come over here to Oliver (49:14). Andy?

Q - Andy Hughes {BIO 15036395 <GO>}

Hi, Andy from Macquarie. I had a question on (49:49). Just kidding.

A - Andrew Martin Croft {BIO 5711239 <GO>}

Go for it, Andy. (49:23)

Q - Andy Hughes {BIO 15036395 <GO>}

Tempting. No, the question is really on the MSB. So, what's in the MSB? I think you mentioned the unit mispricing (49:31). Could you break down kind of, is conduct risk in there as well or, I mean, you're saying this could come down? And you've got any thoughts about if it does come down, what are you going to do with the cash at the yearend in terms of the proceeds generated from the leadership (49:47) surplus?

And, I guess, the second part of the question is, have you looked at other things that maybe could be used to reduce the Solvency II position? Would that make any difference to you, for example, if you were to currency hedge some of the FX risks that you have with the – where the accounts are invested? That would clearly free up more Solvency II surplus, but would it make any difference to your MSB? So, are you running on a Solvency II basis? It sounds like you run on MSB basis, so could we get some feel as to what the MSB actually is? Because I don't really have a clue what that number (50:20)? Thanks.

A - Andrew Martin Croft {BIO 5711239 <GO>}

Yeah. So, you're absolutely right. We're more focusing on the management solvency buffer rather than Solvency II. And so, how do we set the management solvency buffer? Well, the ORSA process is a key area of sort of metrics we use. So, as you know, within the ORSA, there's stress testing, there's scenario testing, picking up all sorts of different things. So, I think you referred to the conduct risk, so yes, that will be in there. And coming out of the ORSA process, our view at the end of last year before the unit liability reassessment was an appropriate management solvency buffer to hold across the two life companies was £170 million. We then came to the unit liability reassessment, which essentially changed the timing of £267 million worth of future profit and bought back future profit to today. But if you think about it, when you're looking at the ORSA, what you've done now is we moved £267 million of future profit. So when we reassess the management solvency buffer in the second half of this year, we no longer have that £267 million coming through because it's come through at start of the year. I don't want to preempt what the outcome of that review is or what we will do with the capital. But as I said earlier, I think it will come down, and then, the board will have a conversation.

A - David Charles Bellamy {BIO 14025555 <GO>}

Okay. We've got two questions over here.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Thanks. It's Andrew Sinclair from BofA Merrill Lynch. I've just got two questions. Firstly, you talked about the DB pension transfers in your statement this morning, and taking a cautious approach on transfers of DB pensions. Just wanted to confirm how much of pension's growth was in the period came out of the (52:30) benefit pension transfers.

And secondly, just on Rowan Dartington, just a point of clarification. Can you confirm the assets under management for Rowan Dartington at the start and end of the period? Thanks.

A - David Charles Bellamy {BIO 14025555 <GO>}

Do you want to talk about DB transfers and...

A - Andrew Martin Croft {BIO 5711239 <GO>}

At the moment, DB transfers is virtually a small part of our overall pensions business. We get a lot of conversations going on with individual class and advisors. As David said in his presentation, this is a complex area. We are cautious about it. There are clear examples of whether this is the right thing to do for clients, and advisors can get in there (53:10) that's not the right to do for clients. It's also worth remembering it's a relatively immature market, a lot of activity, because the pensions freedom rules are quite new in the context of pensions over the years. And what we're seeing today are enhanced transfers of values driven largely by a combination of factors such as good equity markets and low interest rates. These things change over time. So our approach is, as we said many times, is we'll be cautious about it, we advise clients very carefully about it, is the market expanding as it is, so with regard (53:40) in the future.

A - David Charles Bellamy {BIO 14025555 <GO>}

The other thing just to note on that is that (53:45) small number of cases, the market we deal in, there are big value, transfer values. I mean, we're sort of a million pounds-ish average case size here. This is our marketplace, it's the high end of the affluent market where people have other wealth. So pensions is not the only thing that we're talking about with them, it's part of. So we're definitely – we don't play in the market where I think people would be worried where your defined benefit transfer value is the only thing that you've got that's going to take – provide you with an income in retirement. That's where life does get particularly challenging.

So far as our idea concerning (54:28), when you say start and end of the period, so £1.5 billion at the start of the year, £1.5 billion something, and £1.8 billion now funds under management. So six months in, £0.25 billion, up or thereabouts, I think. And I just looked at my slides. So if that's the period you're talking about, that's where they're running. Yeah. Sorry. Oliver (54:51)?

Q - Operator

Just one question. The productivity slide you showed, I think you showed 19% increase in productivity.

A - David Charles Bellamy {BIO 14025555 <GO>}

Yeah.

Q - Operator

And you've never achieved that, looking at that slide.

A - David Charles Bellamy {BIO 14025555 <GO>}

Yeah.

Q - Operator

I mean, it's always been single digit growth in productivity. Now, I'm guessing you're going to sort of say that some of this is being driven by the sort of extra help that's now within the partnerships and the technology you've got, but can you talk a bit about the sort of sustainability of that growth number or what strain eventually it puts on your own business if you should sustain that sort of growth?

A - David Charles Bellamy {BIO 14025555 <GO>}

Ian?

A - Ian Stewart Gascoigne {BIO 4439479 <GO>}

Yeah, it's a good one, isn't it? 19% growth in productivity, I'm very happy with that. I think there is an issue about a sweet spot and that they – the supply of advice. I think our partners are finding themselves in a very good position after all these years of -the demand for advice, the shortage of supply, being found out or being good at what they do. And I think also, if we see the way they've changed their businesses, they've gone from a kind of rugged individualist to small business owner, where more and more parts of the infrastructure are doing the stuff they used to do, allowing them to spend more time with clients.

So, there are some kind of internal reasons that they're freeing themselves up more to spend time with clients, because they're outsourcing the infrastructure to support staff. So when David says we've got 5,000 partner support staff, a lot of them are doing the tasks that some of those advisors were doing themselves before. So I think that's had an impact on their productivity, plus the sweet spot.

A - David Charles Bellamy {BIO 14025555 <GO>}

Yeah. And I don't know what the future looks like, but the momentum in the business is really strong right now. And I said before at these functions - at these presentations that you see increasingly, these SMEs that are forming now these 2,400 businesses. They're becoming much more mature, much - they're planning the next 5 and 10 years. They are not planning next year's target, and they're not planning - they're not aiming for next year's partner or double partner. They'll do it, it will become a consequence of the journey they're on, but they're planning much beyond that. And there's something quite exciting going on in our business right now that I think that - you're right, we've never seen productivity increases like that in the past. 4% or 5%, that's our marketplace, that's our model. But as Ian said, a bit of a sweet spot now.

The question is, does that sweet spot (57:30) off in the next 6, 9, 12 months, two years, three years, whatever. There's an awful lot about what's going in society right now that I don't think it changes that much. And there are people investing in advisors, but I'm still not sure that, that - the supply of advisors will catch up with the demand that's sitting out there right now. So, probably Andy is going to have a really easier time (57:53). I mean, I - it's set up brilliantly for him. Although (57:58) okay. We've got two more. So, microphone there and then we'll come over here, all right?

Q - Benjamin Bathurst

Hi. Yeah. It's Ben Bathurst from Soc Gén. First question is on capital. (58:08) small increase, I think £16 million to the other regulated component of the management solvency buffer at first half. I wondered if you could just shed some light on what the driver of that was. Was that purely mechanical? Was that due to growth in SUM (58:20) or some other sensitivity going on there? Second question's on IFRS. I know it's still way off, but at this stage, is it reasonable to assume the IFRS 17 won't have any impact on (58:30) things about dividend in the future, given the fact that it's more to do with moving the Solvency II net assets and capital position?

A - David Charles Bellamy {BIO 14025555 <GO>}

Both for you, I think.

A - Andrew Martin Croft {BIO 5711239 <GO>}

Yeah. I'll do the IFRS 17 first. We're not expecting IFRS 17 to have much impact on us at all, so I wouldn't expect it to be changing the dividend conversation. On your first question, the other regulated companies have solvency capital requirements usually based around the expense ratio. So, their natural increase in the solvency capital required (59:06) companies. There's nothing specific in there.

A - David Charles Bellamy {BIO 14025555 <GO>}

IFRS 17. Can you imagine MiFID III, MiFID IV, MiFID V, MiFID VI, MiFID VII?

A - Andrew Martin Croft {BIO 5711239 <GO>}

Well, so the good news about IFRS 17 is other companies (59:22).

Q - Lance M. Burbidge {BIO 3978332 <GO>}

Okay. Sorry. Thanks. It's Lance Burbidge from Autonomous. I've got a couple of questions. I'm afraid to get back to Bluedoor, again, one of the reasons that you actually initiated the Bluedoor project was to stop reliance on the Prudential system. So I just wondered what would happen if Bluedoor, IFDS decided to now exit the UK market? What protection do you have in place there?

And the second is more sort of long-term and philosophical about the at retirement market. Andy mentioned – I assume he mentioned it because there must be more of it coming in, in terms of people bringing in funds at retirement. What are you doing maybe in association with your fund manager in terms of developing products that are appropriate for at retirement? Because the market seems to be really missing doing anything here.

A - David Charles Bellamy {BIO 14025555 <GO>}

So, (01:00:12) retirement and then we'll talk about Bluedoor.

A - Andrew Martin Croft {BIO 5711239 <GO>}

Yeah. I think that's a really interesting question, and it's a very – a perfect question to the state of demographics in UK marketplace. So we have a number of works (01:00:23) underway right now looking at a couple of areas. One is that, what's the right investment portfolio structures to put the clients at that retirement market. So we're literally going to want to look more towards an income yield going forward. But at the same time, given the tax structures we have in the UK, we'll also be thinking about can this fund continue beyond my generation to next generation and so forth. So we have active work on that, and if things go to plan, we may be able to talk about that at the year-end, (01:00:47).

The second thing we're looking at is what does a decumulation strategy need to be in that context for clients. There, honestly, is very few people who haven't got a reasonable fund when they get to the retirement age across all their assets, not just pensions, but across all their disposable wealth, if you like. We're going to be looking at ways in which they can earn an income from that fund differently to they did before. They're not going to look to new (01:01:09) given current legislation and the current opportunities that are out there. So we are looking at how decumulation strategies can work in this environment, and that's a very active piece of work as well.

So these are two things that – this is a market – I talked about the DB transfer market being immature. If you look at the shape of demographic, this market has got a lot ahead of it. So we've - we think timing-wise, we're okay, there's a big opportunity here coming up.

A - David Charles Bellamy {BIO 14025555 <GO>}

So the political question was one of (01:01:35) or - okay. So, it won't happen. IFDS is owned by DST. American business, was a joint venture between DST and State Street, owning IFDS. DST had bought out State Street's other half or the joint venture, so the DST now own IFDS, they also own Bluedoor.

IFDS service about 40 companies in the United Kingdom in unit trusts and ISA administration. They do an awful lot of work. They're a fairly big player in the UK financial services market. And DST and their board, and we meet their President cum CEO on a regular basis, we met with one of their non-executive directors recently because we're a highly important client insofar as the Bluedoor platform is concerned, and they're keen that we get all this right going forward as they'll be.

So I don't - you're right, one of the reasons we're getting into Bluedoor was because we have to re-platform our business because Prudential will eventually shut down SALAS, and therefore, we need to. We're very instrumental in the whole development of Bluedoor. Ian Mackenzie, who heads up our IT, is here today. He spends quite a lot of time with the Melbourne team, which is where this is being further developed. And I think if anything should happen, if DST would have gone under a bus or something were to happen, we'd probably, all things being equal, just take Bluedoor in ourselves. We've been so instrumental in its development in the UK, I don't think it will be a huge step for us to just simply acquire it and take it on from there. So, I...

A - Ian Stewart Gascoigne {BIO 4439479 <GO>}

(01:03:18) we are the only Bluedoor client - and my microphone is not working, this is probably good news. Whilst we are the only Bluedoor client in the UK, Bluedoor is operational in Australia and has some very big clients on it.

A - David Charles Bellamy {BIO 14025555 <GO>}

Yeah, it's a good point, good point. Okay, that - we're - 11:30, I don't know - we can carry on the conversations and coffee afterwards, so bring this to a close. I'd like to thank David and Numis for letting us use these facilities. I think they actually worked quite well, I've got one more question here coming from Aiden (01:03:51).

Q - Operator

Sorry, David. It wasn't what - a question, but if I may, again, before anybody else from the sell side, to say a few words about yourself. The 26-year journey from shop floor to Chief Exec for Mr. Bellamy has been a remarkable story and is an inspiration to most of us, if not all of us. So a hearty well done in that respect.

What will we miss from your departure, I for one will miss the yellow ties. I think I'll miss the pictures with you in Lycra. So, I don't know if Mr. Croft is going to continue that triathlon...

FINAL

Bloomberg Transcript

A - Andrew Martin Croft {BIO 5711239 <GO>}

(01:04:30)

Q - Operator

Possibly. Sorry? And, well, maybe the business (01:04:37) will continue, but obviously, also with you, Andy. But on a more serious note, the charm with which you've brought the role has been much appreciated (01:04:46) rest of the sell side. You're a extremely approachable Chief Executive, very, very successful, and navigated St. James's Place through these very turbulent times and delivered 5,100 membership is a full testament to you, obviously, to the team as well. So, we wish you very well on your retirement, and hopefully, our paths will cross again.

A - David Charles Bellamy {BIO 14025555 <GO>}

Thank you, and thank you, much appreciated. Thank you. Very, very humbled, but thank you for those kind words. I do get a bit emotional, so I'm not going to say anything apart from I meant what I said about (01:05:32), I'm not going anywhere. So I'm going to stay around until these guys kick me out and say, – and look at the smile. You can tell they want to get there quicker than I might. But it's been great working with these guys. A very tight team for the last 25 years, and thank you.

Operator

Ladies and gentlemen, this does conclude today's call. Thank you very much for joining. You may now disconnect your lines.