Q2 2016 Earnings Call

Company Participants

- Andrew Martin Croft
- David Charles Bellamy
- David John Lamb
- Ian Stewart Gascoigne

Other Participants

- Alan G. Devlin
- Andrew Sinclair
- Barrie Cornes
- Colm Kelly
- David L. McCann
- Jon M. Hocking
- Oliver George Nigel Steel
- Ravi Tanna

MANAGEMENT DISCUSSION SECTION

David Charles Bellamy {BIO 14025555 <GO>}

Right. Good morning. Good morning, everyone, and thank you for coming. We weren't sure how many of you would now have new offices in Europe and might need to rely on the Web version, so it's great to see so many of you here this morning.

As usual in our interim result meetings, I'll run through the new business and part of the numbers we released this morning; hand over to Andy to cover our overall financial performance in that is months period and, of course, the interim dividend; and finally, I'll spend some time exploring and explaining some other aspects of our business, expand on our current trading and give you our views of the future opportunities. I'll then take questions with my colleagues at the end, as usual.

First then, our new business results. It's an understatement to say that it's been a very unusual and unprecedented six months, with much volatility, increasing uncertainty, political hostility, and a somewhat divided population. Nevertheless, Brits are a resilient bunch, and a month post Brexit, we are beginning to see some order being restored.

Such resilience is I know something you associate with St. James's Place in any event, and I hope we'll demonstrate why that's the case once more this morning. At our last presentation in February, I talked about our record of growth in gross and net inflows up

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until the end of 2015. I said at the time, and I quote, both of those records are the real demonstration of the resilience of our business and I don't expect us to lose those records in this quarter, and I was referring then to Q1's new business. In the event we posted growth of 16% in gross inflows in Q1 and growth of 3% in net inflows, dampened a little bit by losing a one-off group scheme mandate.

I went on to say that I hope my comments don't sound complacent, that's not my intention; it's simply that I want to stress just how resilient this business is. You've seen it in 2008 and 2009, again in 2011, and I suspect you'll see it once more in 2016. And I think our Q2 results simply prove that point.

As I said a moment ago, Q1 gross inflows were £2.1 billion and 16% up on 2015. And today, we've reported even stronger performance in Q2, up 23% on the same period in 2015, bringing the year-to-date growth to 20%. A similar picture emerges with regard to net inflows. At the end of Q1, net inflows were up 3%. Q2's result was even more impressive at 25% up on 2015, bringing the year-to-date growth to plus 15%.

Consequently, those inflows, linked to the very healthy investment returns for our clients, has lifted our funds under management to £65.6 billion, up from £55 billion a year ago. So, strong growth and net inflows, both record quarters in every sense with the added consequence of a £10 billion increase in funds under management in the last 12 months.

Recruitment of new partners and advisors also remains very active both here in the UK and in our Asia business. Through the sustained efforts of our business acquisition team, we've seen our partner numbers grow by 2.5% in the six months, and more importantly, our total advisor numbers grow by 4.7%. As I've said on many occasions, such growth in advisor numbers bodes well for the future growth of this business.

The other driver of growth of course is productivity and, in respect of that measure, productivity is up 5% per advisor for the first six months of this year and 9% per partner. Our Asia business and the recently acquired Rowan Dartington business are incorporated as appropriate in this group results and both are progressing very well and on track to deliver our on-plan results for the year.

I'll expand on some of these points a little later, but for now, I hope you agree. A strong set of numbers once again, reinforcing the strength and incredible resilience of the business.

Let me now hand over to Andy for the financial outcomes, and I'll see you again shortly. Thank you.

Andrew Martin Croft {BIO 5711239 <GO>}

Morning, everyone. David has just covered our new business funds under management and advisor numbers, a great set of figures, and this performance is reflected in the financial numbers. However, before looking at the financials, I want to start with a capital

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position. We are now in a Solvency II world, and I spent some time at the February results meeting covering the changes.

Now, if you'd like to go through the detail again, I did actually do a video, and for information, here's a link to our website. Now, on the assumption that this video is not really going to do it for you, here's a quick recap of the final position at the end of 2015.

Firstly, we have Solvency II net assets after allowing for the final dividend of £710.7 million. Then we bring into account the VIF and the risk margin to get own funds of £2.4 billion. The solvency capital requirement, calculated on the standard formula basis, was £1.6 billion, giving Solvency II free assets of just over £800 million and a solvency ratio of 151%.

So six months on, what does this position look like, albeit with some estimation? After deducting the cost of the interim dividend, the net assets are more or less the same, whilst the Solvency II free assets are some £42 million higher. As you can see, the VIF, risk margin, and solvency capital have all increased. These three figures are sensitive to stock markets, albeit they are correlated with each other and the net of the three will almost always be positive. So, to reemphasize the point I made in the February, the key solvency metrics for a fee-based business like SJP are the net assets together with the quality of those assets.

So, at 30th of June 2016, we have Solvency II net assets, after allowing for the interim dividend, of £707.3 million. And as you can see from the analysis of these assets, we're holding £842.2 million of high-quality liquid assets. So, a strong solvency position. Now, looking at the analysis of the movement of the net assets over the six months, we have a starting position of £710.7 million, and after allowing for the interim dividend payment, changes in share capital, and noncash movements in respect of deferred tax and goodwill, we're left with cash generated during the period of £82.5 million.

Going forward, this cash generation becomes the new cash result rather than, as previously, the movement between the opening and closing Solvency I balance sheet. The difference which relates to the movement in the Solvency I reserves is very small. Now, the generation of cash is becoming more and more the key profit metric for the business and is, as you know, the major driver of the dividend decision.

So, let's go through the analysis of the cash result, which as you will recall, is presented net of tax. The retained net annual management fee on funds under management of £235.7 million was up 9.5%, in line with growth in funds under management and it remains at a blended rate of 77 basis points post-tax. We are not seeing margin pressure.

The unwind of the early withdrawal charge, which we are now referring to as reduction in fees in the gestation period, was £86.9 million. Now, at the end of June, there were £21.4 billion of funds under management within this gestation period which are not yet generating income. This £21.4 billion represents approximately one-third of the total funds under management, and if all the business reached the end of the six-year period, would contribute some £165 million to the post-tax result.

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So, the net income from funds of £148.8 million was up 10%. The cash margin arising from new business of £20.5 million was at a similar level to last year. You might be asking yourself why has this figure not grown if business was up 20%. Well, very importantly, this is not margin pressure, but it's a business mix which will ebb and flow between years. In the current six months, we have seen a larger proportion of pensions business, and this has had a dampening effect on the growth of this figure.

It's probably also worth noting that the £20.5 million is a relatively small contributor to the overall result, and it's dwarfed by the £148.8 million of net income we received from funds under management. So, what's important is the growing funds under management on which we earn ongoing fees.

Establishment expenses, operational development costs, and regulatory fees have all increased in line with our stated target this year. This is particularly pleasing given the strong advisor recruitment. The FSCS levy reduced the post-tax result by £13.6 million. The levy continues to be a frustration and this is the second year we've incurred what we believe to be an unusually high levy. We do still expect the cost to reduce back to a more normal level in coming years. There's also a current consultation in progress around how the FSCS is funded going forward. So, hopefully, some positive news to come.

Shareholder interest during the period was £4.7 million, utilization of capital losses was £7 million, and miscellaneous cash flows contributed £4.4 million. If we take all these cash flows together, then the operations generated £103.1 million compared with £90.1 million, growth of 14%.

Now, as well as our ongoing investment in growing the partnership and the business as a whole, we have and will continue to invest in a number of strategic investments: the Academy; our Asian operations; Rowan Dartington, our new DFM offering; and other areas such as the Middle East. The combined impact of these investments during the period was £8.7 million compared with £5.2 million in the prior year. Now, we have covered these initiatives in previous results and capital market presentations, and David will touch on these a bit later.

So, after taking account of these investments, the underlying cash result for the period was £94.4 million compared with £84.9 million, up 11%. We also showed as underlying cash result split between that arising from the in-force and the cost of the current year new business operations. You will see that cash arising from the in-force, at £153.4 million, has increased by 11%; whilst the impact from the current year new business operations was £59 million compared with £52.7 million.

Now, as I said a few moments ago, cash is the key profit measure for the business although clearly we need to also report IFRS. So a few moments on this measure. Taking the underlying post-tax cash result we have just covered, the following adjustments are required to get to the IFRS result. Firstly, the share option charge for the period was £7.5 million compared with £5.6 million in 2015.

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Secondly, we have the movement in the deferred tax position. Now, since the IFRS result will have benefited in the financial period when the deferred tax asset was established, it cannot benefit a second time. Therefore, as deferred tax is utilized and closed with a cash result, so it must be reversed out in the IFRS. The cash result, benefited from tax utilization, were £12.4 million in the period and, hence, it is reversed. The equivalent number last year was £18.5 million.

The cost of the back-office infrastructure program was £8.4 million, in line with forecast, and which compares with £7.3 million in the prior period. Having successfully transferred the administration of our Unit Trust and ISA clients last year, we will be launching a retirement plan on the new platform later this year and begin planning for the migration of existing pensions business.

The cost benefits analysis over the term of the contract continues to be very compelling, and indeed, we're starting to see the benefits accrue. In addition, at the end of the program, we will have a modern infrastructure, as well as having future-proofed the back office for continued growth in line with our business strategy.

There was a small adjustment for the movement in insurance reserves, over negative £1 million in the current year, compared with a small positive movement last year. And finally on IFRS, there was a negative miscellaneous variance of £6 million in the current year. This primarily relates to a £6.6 million cost from a voluntary review of old legacy contracts. Following this review, we have taken the decision to waive exit charges at the minimum retirement age on our older pension contracts written before July 1999. We are also reassessing risk charges on our reviewable protection contract. Just to emphasize, this is a voluntary move and relates to older contract structures which have not been sold for some time.

Taking all these adjustments into account, the underlying post-tax IFRS profit was £59.1 million, which grossed-up for tax, gets a pre-tax number of £73.8 million. Both the pre- and post-tax results are at a similar level to last year.

Finally, the adjustment for the movement in the intangible DAC, DIR, and PVIF reduced the results in the year by post-tax £10.7 million. As you can see, this negative impact has doubled compared with last year and have significantly impacted the total IFRS result of £48.4 million post-tax and £60.5 million pre-tax.

Now, there are a number of moving parts in the IFRS result and I'm aware these are still causing some confusion and modeling concerns. But rather than dwell on these technical points in this presentation, we are available for one-to-one meetings. And as an aside, Hugh Taylor has recently joined our IR team, and if you've not already met him, he will be introducing himself in coming months.

Right. Let's move on, have a quick look at the results. And I would just highlight a few points. The new business contribution for the six months was £228.9 million, up 11%. Although the new business contribution has grown at a slower rate than the gross inflow growth, just to reiterate, this is not due to margin pressure; it is a business mix point.

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Experience variance for the year was a small positive £1.7 million and the current period experience variance is a net of three items. Firstly, a £13.6 million negative variance from those voluntary actions we are taking on the legacy book. The cost is high than the IFRS impact since there will also be an impact on future fees receivable. Secondly, there's a positive £7.5 million variance from a release in the cost of holding solvency capital due to a lower solvency capital requirement following the implementation of Solvency II. And thirdly, a net positive £7.8 million variance from other miscellaneous small positive and negative experience items.

It's also worth noting that the variance was lower than previous periods since the positive retention we have been experiencing, and I should say continue to experience, was captured in the operating assumption change at the end of last year. Now, we've already covered the FSCS levy, Academy, Asia, DFM, share options, and Bluedoor costs, which together with a small other, provides for an operating profit of £284 million, up some 7%.

The fall in the stock markets at the end of June were more than offset by the beneficial impact from the decline in sterling on the overseas assets. Consequently, the average return of our funds over six months exceeded the embedded value assumption by some 6% to 7%, giving rise to a substantial positive investment variance of £168.8 million. David will touch on our investment performance a little later. There was a small economic assumption change, and the total EEV profit before tax was therefore £442.7 million compared to £289.1 million, considerably higher.

Finally on EEV, let's look at the EEV per share. As you saw earlier, we have Solvency II net assets pre the interim dividend of £772 million, whilst the value of in-force, that's the future discounted cash return, was £3.4 billion, giving embedded value of some £4.2 billion, and a net asset value per share of £7.919.

Now, as we go around investors, we're hearing increasing skepticism around relevance of embedded value accounting, particularly so outside of Europe. In addition, in a post-Solvency II world, the importance of EEV is diminishing. I thought it might be useful to provide an alternative simple method of calculating an equivalent value of in-force business for a fee-based business model like ours.

As we saw earlier, the cash arising from the in-force business in the first half of the year was £153.4 million. For illustrative purposes, let's call it £300 million for the full year. We also saw earlier that the annual income from the £21.4 billion of funds in the gestation period is some £165 million. So, we have a total latent annual post-tax cash return from the current in-force business of some £465 million. Let's look at applying a multiple to this cash flow and comparing it to the VIF. So, as a reminder, the embedded value VIF 30th of June was £3.4 billion. Applying a multiple of seven to that annual latent post-tax cash return provides a number just shy of the actual VIF, whereas using a multiple of eight would provide a number somewhere above of the actual VIF.

So, in other words, a multiple of the latent annual cash return of somewhere between seven and eight would give you the same answer as the full EEV calculation. As we are a fee-based asset management business, albeit in insurance closing, this methodology

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strikes me as an alternative simple way of coming up with a net asset value per share without using EEV assumptions or discounting. Food for thought and maybe something worth developing.

A good set of financial results, so what does all this mean for the dividend? Well, firstly, let's look back at the dividend history over the last nine years. Continued dividend growth even during 2008 and 2009, the compound growth of some 25% per annum. As you know, when setting the dividend, the board considers the underlying performance of the business, there's an eye to the underlying cash result, and a payout ratio of 75% to 80%. We continue to hold a buffer, so where necessary, we can smooth the dividend growth. For instance, we have looked through the elevated FSCS levy.

We're also mindful of those £21 billion of funds under management not yet generating income, therefore, given the performance of the business, we were pleased to increase the interim dividend by 15% to £0.1233. Going forward, we will look to continue to grow the dividend, in line with those factors I have just outlined.

So before finishing, a quick recap on the key messages. The operating cash result was up 14%, with the underlying cash, up 11%; a continued strong solvency position; and an interim dividend of £0.1233, up 15%.

Now, that's me done. Thank you for your attention. And I'll now hand you back to David.

David Charles Bellamy {BIO 14025555 <GO>}

Thank you, Andy. Latent annual cash return. Doesn't quite roll off the tongue, does it? It's – we're going to have to work on that label. But I think it is food for thought. I should have said a few of our colleagues are here today. So notably, I have one or two come up on the stage, but Graham Coxell's here. I noticed Sarah Bates, our Chair. Haven't quite sure whether to call her Chairman or (23:25) And our new addition to the team – two new additions, Andy has already mentioned Hugh. Craig Gentle joined us, ex-PwC. This is his first results presentation and the first time that he's meeting in the home team, so to speak. So, welcome to them.

As I said earlier, the year thus far has been somewhat unprecedented. Market volatility caused by global economic trends, aggravated by political divisions, terrorism atrocities and, of course, the run-up to the referendum.

As the result of the referendum became apparent, the initial shock was clearly probable (24:05) including the initial fall in our share price, which I have to say was just a tinge disturbing. However, while some remained in shock and, in some cases, denial, a large part of the country quietly (24:17) business as usual. Indeed, for most people, nothing had changed.

Living too long, dying too soon, saving for the future, and managing their wealth and tax affairs, helping their offspring, living in a low interest inflation environment, and looking for an income were still the main things on their personal agendas, not the political fallout from Brexit or how long the trade deals will take to negotiate.

And so, it was no surprise to see that the levels of new business transacted by some of the (24:45) come as normal and have remained so in the last few weeks as we confirmed in this morning's press release, continued growth in line with our medium term objectives. Why is that?

Well, there are a number of reasons. First, the partnership, our dedicated distribution. That part of our community who have largely very personal and trusted relationships with clients, they will know when and how to communicate with their clients. That's one of the huge benefits of this business structure, the relationship our partners have with their clients.

Our job is to support them with their communications and dealings with clients and ensure they have all the necessary materials to do that. All received daily, weekly, and monthly commentaries on a regular basis either electronically, via hard copy, and through our various networks and our more intimate conferences. Through them, clients understand that they're investing for the medium term and that there will be bumps and turbulence along the way.

On the morning of the Brexit result, our first communications were out by 7 AM. One of the benefits of e-mail, we can touch all of our community incredibly quickly. We followed that with expert commentaries throughout the day, reinforcing our fundamental message of time in rather than timing the markets. Partners use those communications, some forwarding, some putting on their website, some by phoning their clients and so on. The consequence: fewer inward calls, no panic, and no untoward activity around our funds apart from more inflows as usual.

Second, the geographic spread of our business is important. Our 3,000-plus advisors are spread throughout the UK, in line with the UK demographics. And for the vast majority of them, what they care about is what their clients care about. And that's dealing with all of those issues I mentioned earlier. And, of course, in terms of spread, we now have our Asia business, intentions in the Middle East, and Rowan Dartington, which increases that diversification for the future.

Thirdly, we have a very experienced and stable management team that have managed through and learned from a number of previous crises. We also have a habit of seeing opportunities at a time like this, like the recruitment of IFAs who find themselves increasingly isolated at these times or opportunities for the Academy should we see increased dislocation in the city and more redundancies.

Fourthly, there is, of course, our investment approach. The benefits of our investment approach and the development of a diversified range of funds and portfolios has seen us double the number of firms we invest with and add over 40 new managers since the last crisis in 2008.

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Consequently, today, less than 25% of our clients' money, about £65 billion, is invested in UK equities; and of that, 75% is in FTSE 100 companies, the majority of which have global businesses. Clients' portfolios, therefore, and our fund range generally have performed strongly this year despite the volatility, benefiting from the diversity of the funds.

As of today, the client medium return, net of all charges, for the year thus far is 9%. Clients in our more cautious funds are returning 3% to 4%; and the more adventurous, in excess of 14%, again net of all charges. Hence, over the medium term, our portfolios have remained comfortably ahead of the ARC peer groups. And just to remind you, the ARC peer groups consist of these companies.

The other feature illustrated by the previous slides is that our investment approach doesn't stand still. Our investment committee's application of select, monitor, change is real, and we're on track to implement the next set of changes in a few months' time, as highlighted on this next slide.

One of the most notable additions this time is the launch of a new worldwide investment fund, to be managed by Clyde Rossouw of Investec Asset Management based in Cape Town, a very useful addition given the need for income-generating funds in today's low interest environment. Today, I believe we have one of the richest investment offerings available to the UK retail market, from Cape Town to Copenhagen, from Salt Lake City to Sydney. We have developed a truly global approach.

We also have one of the most cost-efficient offerings. Courtesy of our scale, we're able to negotiate pretty much wholesale rates for our retail clients. And, equally, weighted investment into all of these funds would cost an investor circa 35 basis points per annum compared to double that if they access, assuming they could, these very same funds via a platform, not to mention the platform and associated cost to go with that.

So, a number of reasons why St. James's Place is a very different place and, in our view, the place to be. The diversity of the partnership, the strength of the relationships they build with their clients, the stability and experience of the leadership team, the diversity and globality of our investment approach, and our performance all contributing to the sustained resilience through all cycles.

In addition to those structural points, it's also worth making the point that one of the most important things our partners do for their clients is to ensure that their money is invested tax efficiently. That means ensuring they maximize the tax relief available to them at any one time to them and their families.

And similarly, when clients are in the decumulation phase, that their money is divested tax efficiently. With some changes in legislation, we're moving pension funds from the IHT considerations makes that more important today than ever. Getting such tax efficiency right can be so much more beneficial than an extra 50 basis points per annum from a particular fund. Conversely getting it wrong or simply not paying attention to it by investing through platforms directly could be very costly.

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As for the tax reference, it's just as important as a spread of investment funds, if not, more so. And our corporate business reflects that too. Despite recent growth in our pensions business, we can take some comfort from the cumulative position and balance that exist in our £65 billion of client funds under management. Not quite a third, a third, a third, across the wrappers, but pretty close to it. And I suspect with the recently implemented reductions in pension tax relief for the higher earners, coupled with the proposed 33% increase in ISA limits next year, rising from £15,000 to £20,000 per annum, we will see client investments redirected to maximize their tax efficiency, which in turn will change the balance yet again over time from cycle to cycle as the tax environment changes, as inevitably it will.

A few words now on some of our recent acquisitions. Firstly and one of most recent acquisition, Technical Connection is a very specialist provider of technical support and commentary for the industry with over 30 years' experience. Tony Wickenden and his team have immediately extended the tax and technical support we can offer with the partnership and growing advisory team and has been very well received by all.

I've spoken previously about the increasing importance of intergenerational family wealth management for our clients. It's important because the financial demands of our core client group, those aged 45 or over, are changing and changing client quickly. They are the parents who are living longer and expect to live longer and that is changing the nature of the financial planning for acts and in retirement.

At the same time, they increasingly want to support children or grandchildren in education or onto the property banner. (32:32) Our business is about helping clients with those challenges and we have a number of programs in place to support partners in understanding and responding to these changes.

Recognizing the opportunities here, we've launched or are planning to launch a series of appropriate products and services. To-date, we've launched an intergenerational mortgage range with Metro Bank. Mortgage range is unique in that it allows clients to use their St. James' investments for the deposit for a relative's mortgage application without cashing them in, reducing the loan-to-value calculation or helping them access lower interest rates.

We also launched the lasting power of attorney service, making it easier for our partners to set up such arrangements for their clients and their families. And in the next few months, we're planning to launch a revised gifting service and family protection and general insurance products to complement our existing family health insurance product. We're also exploring further ideas around long-term care and probate services, so some innovative initiatives to aid client retention even further.

And on the subject of attracting and retaining more clients, as you know, the Rowan Dartington acquisition formally completed earlier this year. Our initial focus for that business is to grow the investment executives at Rowan Dartington to deliver growth and support existing partner and client relationships. While some new joiners are constrained by notice periods, decisions to-date mean that we will have grown the team right around

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30% already this year, albeit from a relatively small base. From a standing start, several hundred partners are now formally accredited, as qualified introducers in this area, and the new business pipeline is suitably growing.

The feedback from partners on the interface for the Rowan Dartington team, the proposition, and the investment approach is very positive. And so, we're more convinced than ever that the exact acquisition will prove to be a significant and positive initiative for the group. So early days, but got good progress on those fronts.

As I mentioned earlier, our Asia business is developing nicely. Recruitment is going well with a healthy pipeline of activity. Alongside that, recognizing that these things take time, we've submitted our license application to the authorities in the UAE, seeking approval to establish an operation there mid-2017. As I said, early days and more news than none. So continued momentum, continued activity and continued growth.

Let me end with a few words about the marketplace generally. As most of you will know, I sit on the FCA's practitioner panel, and more recently, have been invited to sit on the newly formed FAMR Working Group. This latter initiative emanating from George Osborne's pension freedom initiative has, without doubt, raised the profile of advice. The demise of final salary pension schemes has raised the profile of advice. An increasingly complex tax system with constant changes to pension tax relief entitlements has raised the profile of advice. The search for income in a low interest rate environment has raised the profile of advice.

And so, it's no surprise to us that a number of other companies have recognized this fact and are looking to replicate what we do, building an integrated business with dedicated advisors. We're both flattered and encouraged. Competition is healthy. Building the best advisor team in the business, though, takes time. It's taken us 25 years to get to where we are today. And today, I hope you agree, we've delivered another strong set of results and are well positioned to take advantage of the future opportunities available to us and to continue our growth record for all the reasons we've alluded to earlier.

Thank you for listening. I'll leave you with a summary of those results and ask my colleagues to join me on the stage to ask any questions you have. Thank you.

Q&A

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

We have some roving mics, as is normal. All right. So, we've got a couple at the front here, so if you can – same rules as normal. Tricky questions, that way; straightforward ones, I'll take.

Q - Jon M. Hocking {BIO 2163183 <GO>}

Thank you, sir. Jon Hocking from Morgan Stanley. I've got three questions, please. Firstly, can you remind us how the FSCS levy is actually calculated and what the proposals are? First question.

Second question, you mentioned changes surrender charges on some of the old products. I know you don't view this as surrender charge, but the 100 basis points for the annual amortization that you have on the book at the moment, does that mean you'll change your approach to selling new pension products to clients close to retirement? I'm thinking, if you've taken out a product just ahead of the retirement age be it three or four years prior then in theory, you have a penalty on encashment. And then just probably what is this - probably a stupid question on slide 9 of the pack. What are the major differences between the £86.9 million reduction in the fees in gestation period and the £165 million of post-tax earnings that's (37:53) in the gestation period? I would've thought they're very close.

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

I'll let Andy get his head around point two and three. Let me just pick up the FSCS levy. Just for starters, the levy rules are sort of born of out of history that there are silos that drive the allocation of the cost and where the levy board consider that the failing that's generated the compensation they've paid for business that's no longer in business. Typically, there's business that are authorized directly by the FCA. (38:30) then they make a judgment as to whether that's in the advice silo or in a banking silo or a different silo, general insurance silo.

And what gets allocated to us, primarily what drives the £20 million last year and the £17 million this year is the silo that says actually because some of these unregulated investments were put inside (38:58) is an advice piece and therefore it comes to the advice world. You can debate whether that's a good judgment or not. And we certainly have - and Andy's (39:03) the FSCS levy board CEO and we've carried on that conversation.

There were a number of pushbacks on the levy over the last 12 months from the advisor sector and relocate from a lot of IFAs who can't afford a doubling or tripling of what it is they pay albeit in relatively modest terms, so much so that the FCA have committed and started a review of the levy and its allocation. They recognized that it's sort of outdated, the way it's being addressed now. The markets has changed, the world is a different place. But to be fair, they don't have any sort of instant solutions. There's not a silver bullet because if we don't want to pay as much, somebody else is going to have to pay some more, the compensation is what it is.

I think there's a sense, which is behind Andy's comment, that there's been a sort of blip, an unusually high amount of compensation paid out in these last few years with some of the legacy stuff from the banking crisis in 2008, 2009. And so, when we talked to the levy board, we begin to sense that there shouldn't be those high levels of payout. And therefore, regardless of the reconfiguration, we should be lower absolute in any event.

I hope I gave you enough time to think about slide 9 and...

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

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I'll do slide 9 first, and I'll be very gentle in my answer, Jon, as well. The £86.9 million is the six months, the £165 million is for full year, sorry.

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

That wasn't so gentle. (40:35)

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

And I think David's going to pick up the other points.

A - David John Lamb {BIO 15016583 <GO>}

So, on the idea of somebody investing, say, two or three years before retirement, I think two or three points. First of all, we say to people we don't invest for the short term, so you invest for five, seven years, our standing point of guidance. Secondly, for someone retiring, it's not a cliff. They tend to say (40:55) longer period than they might have thought.

But more importantly, they're not going to annuitize. So, what they're going to do is actually look to how they could generate an income from the portfolio over that period. And there's a glide path to old age, if you like. So, actually it's not about a three-year window from a pension timing. So, there's no need to think about changing the way we structure products. The marketplace, panning out, is getting much bigger because if we get there, we're going to realize we're going to need to manage our income conversation ourselves rather than the annuity. So, it's natural the way it sounds and we've been asked the question.

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

Okay. Andrew had a question down here, (41:30)

Q - Andrew Sinclair {BIO 17749036 <GO>}

Thanks. It's Andy Sinclair from BofA Merrill Lynch. Firstly, it was just on Bluedoor. Just wondering if you could give a bit of an idea of how much you can see in terms of benefits from Bluedoor so far (41:45) what could be expected to be seen over time and just what outstanding costs are left? That's the first question.

And secondly, on assets under management, we've got a useful breakdown in terms of UK equities, overseas equities. Just wonder if you could give us an idea of residual assets, how much of that is UK versus overseas? And third and finally was just on the family protection and general insurance products that were mentioned (42:13) products. Just wanted to understand would any of that sit on St. James's balance sheet or we'd be looking to the balance from someone else's balance sheet?

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

Andy, do you want to take the Bluedoor, where we are with benefits and costs, first, and...

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

Yeah. So, we will see benefits coming through. Indeed, we already are seeing benefits coming through in a number of ways. Firstly, the – I call it the in-force tariff will be lower as the business has migrated onto Bluedoor. Secondly, the new business charge that we pay will also be lower once business is transacting on Bluedoor. But more importantly, there's quite a lot of operational leverage in it.

So, there's sort of contract that we're operating over the last 23 up years is very much – you're paying a fee for policy, but it comes down as you got more policies going on. And so, over 15-year contracts that the savings are very, very large and will, obviously, depend upon the amount of business you're getting on the platform. In terms of what we're seeing so far this year, there's about £3 million to £4 million saving so far this year from the Unit Trust and ISA business that's on that platform.

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

Okay. David, do you want to pick up the funds under management?

A - David John Lamb {BIO 15016583 <GO>}

So, on the assets, you look the slide on page 23, actually you've got broadly 10% overseas fixed income, and you've got 45% overseas equities directly, so 55%. Of the balance of the rest of – the vast majority is UK assets, UK cash is a bit of overseas cash, depending what the manager is doing in American equities or European equities and things like that. But that's – the bulk of it is actually overseas and most of it is in direct equities and the 10% in corporate bonds.

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

And to finish this final part of your earlier question, we will see costs for the remainder of 2016 and probably 2017 as well in terms of Bluedoor.

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

David, did you have – just a second, Andy. I think David (44:27)

Q - David L. McCann {BIO 15885639 <GO>}

Okay. It's David McCann here from Numis. Just a question I think maybe for Andy on the 7 times to 8 times cash earnings number you were suggesting. Would that relate to how 7 times to 8 times if you look back for a few years? 7 times to 8 times has always been the range of that. And I guess a follow-up to that, why is 7 times to 8 times the right number other than just being conveniently close? Is there any other basis for it?

And then completely unrelated question, it looks like you changed a number of the funds in your panel today, including Aberdeen, which you've obviously held a very long-term relationship with. Just wondered how many assets you held with them.

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

Should I do the 7 times to 8 times? I think historically would've been very much 7 times to 8 times without a doubt. Is 7 times to 8 times the right number. I think I'll probably leave that for investors to decide. The average duration of our plans tends to be around about 14 years.

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

I think to be fair, Andy, as he said in the presentation, food for thought, recognizing an embedded value is not probably the future, let's find a better word. But very conscious to the fact that the simple business, a fantastic business in terms of its trajectory and complexity around our life insurance legacy and we're trying to find our way through that. So, I agree with you, 7 times to 8 times is like conveniently (46:00) which sort of works. But it is food for thought, it takes us forward.

David, funds under management, just talk about what's happened to Aberdeen, and...

A - David John Lamb {BIO 15016583 <GO>}

I'm very happy to. In the Aberdeen has, as you said, in long term relationship, the Far East fund, there's a lot that's been changed. And that's roughly about £1.5 billion (46:21)

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

And how much - just the Aberdeen do we have?

A - David John Lamb {BIO 15016583 <GO>}

£1.5 billion.

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

£1.5 billion. Thank you. So, one in the front, Andy, and then Oliver.

Hi. I think you might have missed Andrew's question on the flexible whole life before because he asked about the review of the protection contract. And I'm just wondering is it flexible whole life, is it the kind of (46:53) charges that are involved? And kind of is this a perspective adjustment you've made or is it retrospective and when was the last time it was reviewed?

And then I guess just some clarity on the legacy review as well. Is that the 55 or is that 65, and does it make any difference?

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

Taking your second question first, we waive them from the minimum retirement age of 55. So, no exit penalties in that respect. In terms of your first question, what we're saying is we're reassessing some charges on our old protection contract. It's not whole of life. Does that answer your question?

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

(47:37)

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

Well, it isn't. We're not undertaking a review. We're reassessing the charges on the plan. So it's not a review as in a reviewable contract that we're changing. It's we've gone back and are we comfortable with the charges being levied. We feel a little bit uncomfortable, and therefore we kind of reassessed (47:57)

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

(48:00) We've made a provision that's why it's in the numbers. It's not material, but we need to work through the detail in terms of...

(48:10)

No. No. It's a one-off impact that we believe is the number for the reassessment exercise. Oliver?

Q - Oliver George Nigel Steel {BIO 6068696 <GO>}

Oliver Steel from Deutsche Bank. Two questions. First of all, just thinking about the solvency roll forward. Solvency ratios remain consistent at 151%. I mean, that implies, of course, that the dividend you've paid out is precisely right and you're not actually generating any extra cash in excess of the dividend or in excess of that. To what extent do you see the sort of first-half roll forward then in that solvency ratio that's normal? I mean, does that imply that the cash dividend you're paying at the moment is pretty much the maximum payout ratio you can (48:58) So that's question one.

Second question is on the margin on new business. I heard what David said on the mix perhaps changing back towards Unit Trust - well, back to ISAs over the next 12 months or so. But is the lower margin on - is the lower profit margin just generically on pensions purely reflected in that first-year margin, or does it - is it reflected at some point in the 77 bps that you take out of funds under management?

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

I think they probably are, yes. So with the dividend, if I sort of understood the question, we current - so the half-year dividend is around about 70%, just shy of 70% of the underlying cash return. So, the underlying cash is the number that's the key one the board considers. Because of the investment in Bluedoor, then the total cash was lower than the underlying cash. But that would always be consumed by the difference between 75% and 80%, if that makes sense.

On the margin of - so why is pensions business generally lower? Well, it would probably stay with us for a shorter period of time. So people are taking more income off of it and it would tend to be older ages. So, in terms of the embedded value, what we tend to see is that the funds under management stay for a shorter period of time, if that makes sense.

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

That may change. It's an assumption that we have on there. And I should say, I mean, I need to do a bit of self-promo on the solvency video, but he has made a Solvency II video. It is a must-watch, but I wouldn't have kids in the room if you're going to watch it, okay, because it might scare them a bit. Sorry. We got a couple of questions here. I shouldn't take the mic out of him, but we've got a bit of line up here, so just pass the mic along. So, and there you go. Yeah?

Q - Alan G. Devlin {BIO 5936254 <GO>}

Alan Devlin, Barclays. I have a couple of questions. Just actually in the last few weeks, be interested in a bit more color on what you're actually seeing plans doing. Is it literally business as normal because everyone (51:22) expected this result or is there any nuances, retention is changing, are people investing in different products, et cetera? And the second question on the investment spend in the Academy, in the Asia, and Rowan Dartington, is that a good run rate of what we should expect for the full year and over the next couple of years? Thanks.

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

Let me bring Ian in on to the business flows since the 24th of June because it really – what I see business as usual but Ian's closer to it.

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

It will be remarkable to expect the (51:47) of for you looking for this but there has been no evidence of any change whatsoever. We monitor the business on a daily written business. We monitor the business on an issue basis and that has not missed a heart beat on new business.

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

And then, this is what I tried to say in the presentation, from a client's perspective, nothing – it's all the normal things that are going on in life. And when you talk to partners and you meet clients, you get quite a few comments of that and have some this morning from clients that have said, we really appreciate that some of those clients that came out because there was a bit of an immediate.

And then, you realize actually it is going to be pretty much business as usual in terms of individual people's lives. So, I sort of think it's not a surprise to us and we desperately don't want the sound complacent or naïve that Brexit is going to cause some changes. But right now, I think, when you look at it from an individual's perspective, all those usual things apply and that's what we spend our time talking about.

David, do you want to talk about the second part of the question in terms of some of the investments in international and just how you see things.

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A - David John Lamb {BIO 15016583 <GO>}

And David has talked – he mentioned momentum in the recruitment, which is the key behind St. James's Place's business model, how many partners do we have and how to help them increase their business productivity. And the third question on both Rowan Dartington and in Asia, we've got really good momentum behind people joining it, either have signed up and have come across or in the process of doing so. So, in Asia, there's a process of going through getting work visas and work permits. Even when you're really there and you want to change advisory, you have to go through that process again. That slows down the actual transfer itself. It doesn't slow down conversations or (53:38) pipeline.

And Rowan Dartington has been a very similar sort of experience, so we have people we know are coming. They've signed. They've left (53:45) but are working through the three- and six-month notice period. So we're very encouraged by the growth of the underlying fundamentals in the business in terms of the people we have on the ground in both businesses, working also on the partnership and actually working also on the range of expanding products that we're talking about today.

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

If you look at your models, if you assume that's the normal run rate, I think that will be fine. Clearly, there's an opportunity to do a special academy because of redundancies in the city, how to get fit in, then we will incur some extra spend, but it will be good spend.

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

So I'm going to pass the mic, run along, so just behind you, Barrie, because there are a couple more hands up. Yes.

Q - Ravi Tanna {BIO 16926941 <GO>}

Thank you. It's Ravi Tanna from Goldman Sachs. Just a couple of questions, please. The first was on dividend and it's just a numbers question as to – you used to provide the value of the dividend reserve or the buffer that you've alluded to, and I was just wondering what the update is on the size of that and also how you think about that now that you've switched across Solvency II, how that will be deployed going forward.

And second one was around the disruptions to a number of property funds across the broader market, and I was just wondering if you've had any exposures to that. I know property is small in the context of your broader portfolio but whether there'd been any changes to your fund pricing or also on...

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

On the property and David who chairs the investment committee can expand on this, but we didn't see much by way of activity at all. It's quite a liquid – there's quite a degree of liquidity over 20% in the fund. It was pretty much we have two or three days maybe 48 hours where we had a slight spike in the amount of money being switched. And that was largely in our view being driven by the some of the headlines when (55:36) battalions came out and suspended and marked down their property and so on. We didn't have the same experience but we set up a group. David chairs all that and they spend quite a lot of time. It was pretty much straight forward.

And the pricing points?

Yeah. Apart from a couple of days (55:53) and that was that. We went to each evaluations because actually we wanted to find out what's happening in the property market. And if you talk to valuers in the market, they'll tell you transaction volumes are roundabout 10% of normal levels. So, what's happening is that the ones most of the funds had to close or suspend, we did not do that. And what they were doing was having to sell properties in these specific redemption requests. And so, the only transaction you saw were actually quite interesting things to look at from a buying point perspective. We had 22% liquidity in our funds again to the period into Brexit.

We didn't buy anything because we think we could get the cost we want elsewhere. And we moved the pricing basis after the bid and we'd moved it back yesterday, the Unit Trust fund. So I think we'll see the market stabling and setting down a bit. And there's not a lot of activity still. We're in the summer now so I think we'll see buyers waiting and sellers unless they're forced to sell their (56:52) as well, so...

Thanks, David. Do you want to talk about the (55:56)

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

Yes, interesting observation. It slipped out. Sorry about that. That's obviously (57:02) Solvency II. We've omitted the number accidentally. I don't have a number to give you, but on the basis, lit would have been roughly the same as it was before. Well, we've looked through the FSCS levy a couple of times, it will be a haircut from the number before, which I think was 100 bps (57:15) before but I have to go back and check and reinstate that.

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

We have two more questions. There are two hands up here, one there and Barrie, and then we'll cut it as we're up to the hour. Yes.

Q - Colm Kelly {BIO 19140684 <GO>}

Thank you. Colm Kelly from UBS. Just a question on pensions and pension transfers. Clearly, that's an increasing driver of the new business flow. So, we appreciate you're not seeing margin pressure, but are you seeing any increasing challenges around (57:43) group or anything around just to find charging differential between, say, and SJP pension versus an open-market pension, which is – with the open-market pensions becoming increasingly lower charges and more and more transparency. So, I appreciate the value add of the advice offering, but are you seeing more challenge around justifying the charging differential? That's the first question.

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The second question is just on the Academy again. It's an increasing driver of the partnership. So are there any metrics internally that you have in terms of the net inflows of the Academy graduates are generating versus IFAs recruited and also the quality of net inflow vis-à-vis the persistency, et cetera? Are there any metrics we can gauge that versus the IFA recruits or even maybe going forward other metrics we can look to on that? Thank you.

FINAL

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

Yeah. I'll hand over the Academy point to Ian in a second. The pensions bit, open market pensions, our pension charges are competitive. So, there isn't an issue here in terms of how do we find things. What you'll find is that there's some confusion in terms of the way the market looks at charges. We are an integrated business, so the platform, the fund, and as I said earlier on, we get better rates than most do in terms of managing the money.

What you will see compared to in the market is sometimes you'll get another large company who charges 60 basis points for the fund management bit, and let's compare it and contrast to 1.2% or 1.3% with us. We're not comparing like with like.

To get access to that 0.6%, you need to go on a platform. If you're dealing with an advisor who's taking care of your affairs, you will find that the advisor charges have gone up typically over the last two or three years. The annual run rate now for ongoing advice charge is 75 basis points to 100 basis points. For St. James's Place, the maximum is 50 basis points.

So, if you put all the charges together in that outside world and compare them to the inside world, you will see very similar and competitive rates. And in our investor pack, you'll see that we cover those cost comparisons on a £100,000 investment into one of our wrappers, and we use Grant Thornton to do that.

If you remember, if you were there at our Capital Markets Day, we had a young lady stand up, Alex Pearce, who is an IFA, been an IFA for 15 years, and she made it quite clear that actually she's cheaper today inside St. James's Place, with all the backing and the substance and the strength of St. James's Place, than she was as an IFA. So, it is largely about this transparency and fragmentation that's going on that causes some of the issues regarding charges.

Ian, do you want to take up the Academy point...

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

Yes.

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

...insofar as we have data?

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

Yeah. It's a good question because the – if you take the – an average IFA recruit coming into SJP, the average age will be between 50 and 55, and they'll have 15 years experience. And they're going to be more productive from the very beginning of their career with us than an Academy graduate. An Academy graduate, average age is going to be 38 and they're just starting out in their journey.

What they make up in terms from in experiences, they make up with enthusiasm and they're an investment in the future. We could start producing more metrics in terms of – to help you guys, but we're looking at 70 to 80 graduates this year all coming in at a level of productivity. They don't graduate, and so, they have a certain level of productivity that we're happy with, which is about associate partner level £60,000 a year.

So, by the time they come on the books, they are functioning individuals. One of the things that we're looking at to accelerate that development and increase their productivity is for more of them to go into existing partner practices as against the stand-alone business. And that's one of the things that we're looking at accelerating that.

The Academy is an investment for the future, not just in terms of a positive impact on this year's manpower figures but a positive impact on the vibrancy and health and youth of the partnership going forward. So, it's not all about their initial productivity.

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

Ian and I and Sarah went to one of the Academy graduation ceremonies recently in the city, and it was fantastic. It was – the average age of Academy students or Academy graduates now is around 38. The pride of these guys qualifying, graduating, some of them with their parents in the audience, so a proper ceremony, and their back books, their CVs, hugely impressive. So, I agree with Ian. I have no doubt that the quality of the people that are coming in and joining, selecting this organization and coming in to wealth management I think is a huge positive for the long term of the business. And the productivity in the short term I think for us is less of an issue because we've – this is a slow build. This is building for the future.

Last question from Barrie and then we'll break for coffee and we'll still be around, so – okay. (01:03:21) I think it's always going to be a very informed question from Barrie because...

Q - Barrie Cornes {BIO 2389115 <GO>}

I'm going to disappoint, I'm afraid. It's Barrie Cornes, Panmure Gordon. A couple of questions really looking forward. UAE, just wonder what the plans are there and how are you going to go in. And secondly, going back to the point, I think, Andy raised at the beginning. I'm not sure he got an answer on things such as the GI, general insurance. Are you going to act as simply a broker in which what class most of the household general – general insurance?

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

Yeah. The latter point in terms of intergenerational it will be - we'll be a distributor. So not going to start manufacturing those products. And general insurance, it can be term, it can be household, it can be international, it can be family general insurance. There are some pretty sophisticated insurance products out there and we will look to see if we can - working with people at WPA in terms of the helping and monitor of our other providers see the extent to which we can build family-type products.

We have concept and we're testing one or two ideas with one or two insurers who are keen to work with us. (1:04:27) but really keen to explore relationship (1:04:33) one or two other players. And so far as UAE is concerned, David oversees international so I'm sure he's got some comments he'd like to make on.

A - David John Lamb {BIO 15016583 <GO>}

It's the same in the sense that we do (1:04:52) of the UK, we're going to be build off in that rather than acquire. We've looked and don't believe there's a sensible business for us to acquire (1:04:55) for example, in Asia. So rather than do that, we're going to go and establish our locations in Dubai and Abu Dhabi and build locations with our management teams in those countries. It's a slightly different approach, but one we're very familiar within the UK.

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

Okay. Thanks, Barrie. Thank you very much. Thanks for your attention. We will resume with coffee, and we'll hang around. Some of the individual questions or follow up, feel free. Thank you for your time.

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