S1 2011 Earnings Call

Company Participants

- Andy Croft, CFO
- Charles Gregson, Chairman
- David Bellamy, Chief Executive
- David Lamb, MD
- Ian Gascoigne, MD

Other Participants

- Andy Hughes, Analyst
- Barrie Cornes, Analyst
- Daria Asadullaeva, Analyst
- Gordon Aitken, Analyst
- James Pearce, Analyst
- Marcus Barnard, Analyst
- Oliver Steel, Analyst
- Robin Buckley, Analyst
- Toby Langley, Analyst

Presentation

Charles Gregson {BIO 1529731 <GO>}

Good morning, everyone, those of you who are here in person and those who are listening on the web. My name is Charles Gregson and I am the new Chairman of St James's Place.

May I start by saying I have a hard act to follow, and I would like to thank Mike, who is sitting over there, for his stewardship over the last 20 years. I am pleased to say that Mike is staying involved with SJP as Chairman of the Foundation, and is also playing an advisory role for our Academy, which is one important route for growing the Partnership in the future. So thank you, Mike.

This is a very special company, as any of you that have attended one of our Partners' annual meetings will know. I am therefore delighted to become Chairman. And I will be doing all I can in the Boardroom to help sustain the momentum of the business and deliver further good returns for our shareholders. I also look forward to getting to know you better in the coming months.

This is very much a day for the executive team to talk about a very good set of numbers. Personally, I am especially pleased about the dividend announcement, as is my wife, who holds the shares in SJP that we jointly own.

But before sitting down, I just also wanted to say how pleased we are to be able to announce the appointment of Patience Wheatcroft as a non-executive director, with effect from the beginning of April.

And on that note, I will pass you over to Andy.

Andy Croft {BIO 5711239 <GO>}

Thank you, Charles, and morning, everyone.

In a slight change to my usual presentation, before looking at the financials, I'm just going to quickly recap on the new business and funds under management announcements of last month.

So the slide on the screen shows the usual quarterly progression of new business, measured on an APE basis, over the last four years. Despite the difficult trading conditions in the final quarter of 2011, we were pleased to record flat new business, resulting in more than GBP1.2 billion of new client funds, which gave a total for the year of GBP5.2b, a new record.

Of equal importance to growing new funds under management is retaining existing client funds. And our retention remains very strong, providing a net inflow in the final quarter of GBP0.8 billion and a total for the year of GBP3.3b.

Looking at the quarterly net inflow for the last four years, you'll see on the current slide it is very consistent, and not once have we seen net outflows. In fact, this is also a consistent pattern over longer time periods.

All this provided for 6% growth in funds under management to GBP28.5b, despite the market falls experienced during the second half of the year. The progression of funds under management over recent years can be seen on the current slide.

Now, the growth in both new business and funds under management are the key drivers of the strong financial performance during the year. I am going to look at this by starting with the EEV result.

The new business contribution was GBP246m. Sorry, can you move the slide forward, please? Looks like we have a technical gremlin. Just bear with us for a few moments. That's it. Thank you very much. We'll see if it goes over from here.

Right. So yes, looking at -- can we go back one? Yes. And next one along. That's it. Oh, it's happening on my one here. We rehearsed earlier and it was absolutely fine, as a worst case. Right, okay. So it's there now then. Okay, let's see if it goes.

So starting with the embedded value result and the new business contribution, which at GBP246 million was up 13% over the previous year. The increase reflects a slight widening of the jaws, with new business up 10% whilst the growth in establishment expenses were only up 5.8%. Consequently, the new business margin increased to 38.3% on an APE basis and 4.6% on a PVNB basis. And I think the slides have got stuck again, by the looks of it. No. There we are.

In considering the margin for 2012, it is worth noting we expect establishment expenses to increase by 5%, and in addition we will be investing in the relaunch of the Academy.

The expected profit or the unwind for the year was GBP91.2m, slightly lower than last year, and I'm going to spend a few moments commenting on this figure.

As you know, the unwind is calculated by applying a discount rate to the opening value of in-force. However, there is no prescription on whether the calculation should use the start of year discount rate or the discount rate at the end of the year.

At SJP, we have always used the end year discount rate, and therefore the unwind in 2011 includes the effects of a 1.6% reduction in the discount rate, mirroring the fall in the 10-year UK gilt yield, or in our case the risk-free rate. Had we used the start year discount, or had indeed the discount remained unchanged over the year, then the unwind would have been GBP27.8 million higher, with the corresponding offset within the investment variance.

Reflecting on this practice, we have decided to change our approach going forward from 2012, and we will now use the start year discount for the calculation of the unwind. This will help you with your forecasting, and will also bring us more into line with the other life companies.

There was a strong experience variance of GBP38.1 million in the year, compared with GBP26.4 million in 2010. The key contributor to the positive variance in both years was the continued strong retention of funds under management, whilst the current year also recognizes a benefit of a lower level of actual administration costs compared to those in the EEV assumptions.

There was a very small positive operating assumption change of GBP0.6m, compared with a small negative assumption change of GBP3.4 million last year. Taking into account the investment income, the life and unit trust operating profit was up 12% at GBP378.7m. Distribution contributed a profit of GBP6.1m, marginally higher than 2010, whilst other operations contributed a loss of GBP13.3 million compared with a loss of GBP11.7 million last year.

Included within these figures is the cost of expense and share options, at GBP10.5 million in the current year and GBP8.2 million for the prior year. And taking all this into account, the operating profit for the year was up 12% at GBP371.5m.

And looking at the non-operating items, there was a negative investment variance of GBP180.4m, reflecting the fall in the markets in the second half of 2011. There was also a very small negative economic assumption change, giving a total pre-tax profit of GBP190.8m.

Within the tax charge, there was a positive GBP50.5 million in respect of the change in corporation tax rates. Given the ongoing commitment of the government to further future reductions in corporation tax, we have now reflected not only the reductions enacted in legislation but also the 1% reductions announced in each of the next two years.

And before leaving EEV result, the current slide shows a net asset value per share, which at 385p was up 9%.

Moving on to the IFRS result. As you can see on the current slide, the IFRS profit for the life business increased to GBP89.1m, whilst the profit for the unit trust business increased to GBP27.8m.

The principal driver for the increase for both was the higher income from funds under management. And in the case of the prior year unit trust business, you will recall that this was impacted by a negative GBP3.5 million levy from the Financial Services Compensation Scheme.

I've already commented on the distribution and other, so I won't repeat the comments here. And therefore, the total profit before shareholder tax, at GBP109.7m, was up 30%. Looking forward, as the cash result grows, which I will cover in a moment, the IFRS result will also grow.

Now, the IFRS tax charge has been impacted by a reduction in the corporation tax rates, but also by a GBP15.2 million market timing effect. In your models, I would suggest you assume that there was no market timing effect going forward. The IFRS net asset value at the end of the year was 137.5p, up 14%.

Now turning to cash. The current slide provides the usual analysis of the cash result. And in a slight change to previous years, we have shown the underlying cash result before any one-off items and timing variances.

As you can see on the slide, the cash arising from the in-force business, at GBP125.4m, has increased by 23% over the year, whilst the cost of acquiring new business, at GBP62.4m, has increased by only 2%. The combined impact of the two provides for an underlying cash result of GBP63m, up 54% over last year. There was a net positive variance from one-offs and timing in both years, giving a total cash result of GBP67 million compared with GBP48.3 million last year, up 39%.

Looking forward, we expect the cash arising from the in-force business to continue to expand, since there is approximately GBP10.2 billion of existing funds under management in their first six years, and you will recall therefore not contributing to the cash result. If all this business was now fully contributing to the result, then the current position would be some GBP70 million higher.

Just pausing for a moment and thinking about this point, like any asset manager, our cash emergence will increase in rising markets. However, in falling markets, there is an in-built nature to our cash flows. Whilst like other asset managers we would see a reduced income as a result of falling markets, our cash flow is cushioned as this GBP10.2 billion starts to contribute to the cash result for the first half.

Looking now at the investment in new business, at GBP62.4m, this was marginally higher than last year, and the current slide provides the usual measures of valuing this investment. I would like to draw out two points. Firstly, the cost of the investment represents just 1.2% of gross funds acquired during the year. And secondly, you will note we are now achieving an IRR net of tax in excess of 20%.

Incidentally, as we are not expecting the cost of investment to increase significantly over the coming years, we should experience ongoing improvements in these measures.

The cash result and our expectation of future cash emergence are the two key drivers in setting the dividend. Consequently, given the strong growth in the cash result, the Board has increased the full-year dividend by 33% to 8p per share.

Our confidence in the future cash emergence means shareholders can expect a similar significant increase in the dividend for 2012, a third consecutive year of significant growth. Beyond that, we hope to progressively grow the dividend in line with the underlying growth of the business.

And finally, looking at capital, total Group solvency assets are GBP342.2m, and the solvency remains strong. We continue to adopt a prudent approach to managing our solvency assets, with no direct exposure to peripheral European sovereign debt.

Preparations for the implementation of Solvency II continue and based on the proposed rules we will not adversely be impacted, and in fact expect to see a reduction in the total capital we are currently required to hold for regulatory purposes. And of course, we mustn't forget that the cash emergence from the business is expected to continue to grow.

So a strong set of full-year results and before finishing let me just recap. EEV new business profit up 13% and operating profit up 12%, the EEV net asset value per share up 9%, whilst the IFRS profit before shareholder tax was up 30%. The cash result was up 39%, with further growth expected going forward. And the dividend was up 33%, with a similar significant increase in the 2012 dividend expected.

So that's it from me. Thank you for your attention, and I'll now hand you over to Dave.

David Bellamy {BIO 14025555 <GO>}

Thank you, Andy. Good morning, everyone.

As the headline said in our press release this morning, a strong financial performance, which is exactly what it was. And just to go back to Andy's final slide on the financials, add to it Partner numbers up 6%, Partner productivity up 4%, diploma qualified Partners at 82% of the Partnership, and 11 new fund managers added in the last 12 months. And you'll see that it's much more than a strong financial performance; it's a strong performance across pretty much all parts of the business, and particularly encouraging for our future prosperity.

Nowhere is that better demonstrated than in our fund inflows. On both a gross and net basis, we are performing very well. In 2011, we achieved GBP5.2 billion of gross inflows and GBP3.3 billion of net inflows for the full year, 10% up on the GBP4.7 billion and GBP3 billion we achieved in the previous year.

This chart takes a longer-term perspective and looks at the pattern of gross and net inflows over the last five years. As you can see, a very consistent correlation between the two and a very consistent delivery of strong net inflows. We believe this performance compares very favorably against our competitors.

Looking forward, whatever the environment throws at us, I would venture that we are in really good shape for the future; good shape as far as the partnership is concerned, good shape as far as the investment proposition is concerned and good shape as far as the Board and management teams are concerned.

Let me explain why I say that. Firstly, the Partnership. Clearly, in our business size matters, and thanks to Ian and his field management team we've grown the Partnership not only in 2011 but in each of the last five years by a compound net 7% per annum. We should not underestimate the significance and importance of that achievement.

Such recruitment does two things for the business. First, it replenishes the team, filling the gaps from natural turnover. And secondly, it drives one side of our growth model. It also has the benefit of introducing new ideas and refreshes the organization. Most recruits today come from the IFA sector, and they join us with a richness of experience of the market and of the competition. That intelligence is really valuable to us, and it helps us know firsthand what's going on in the marketplace.

As well as the growth in new Partners and their impact on overall numbers, we are also in great shape regarding the professional standing of our existing Partners. During the last year, the Partnership took over 4,500 exams, which at a conservative 50 revision hours per exam amounts to 225,000 Partner hours. Spread across the entire Partnership, this equates to about one month per Partner given up to revising for and taking exams to achieve the newly qualified -- newly required qualifications.

I suspect that's a very conservative impact -- or estimate on the impact of productivity. Nevertheless, today 82% of the Partnership are now fully diploma qualified and a further 11% are within one or two exams. Of the balance of 7%, half of them are recent joiners. And together with the bulk of the balance, I am confident they will achieve the necessary goals.

A fantastic effort by all concerned, including our management and support teams, who helped in the process. And even more impressive when you consider that they still managed to attract 10% more business than in the previous year, against much less favorable market conditions. With the vast majority of Partners now RDR ready, a year ahead of implementation, they can now fully focus on the day job. And so we start the year with more Partners and a more focused Partnership with fewer distractions.

Secondly, we are in good shape insofar as our investment proposition is concerned. This time last year, we introduced our example portfolios, and we've been delighted with how quickly the Partnership and our clients have embraced the concept. As part of their introduction, we also appointed Orchard Street to manage our property fund, replacing our previous manager Invista.

Then, in October we announced a new Global Equity strategy, which saw the introduction of three new managers, Tweedy, Browne, Majedie Investments and Sands Capital, who alongside BlackRock and THS now manage the GBP3.5 billion Global Equity Fund on a core satellite basis. What's significant about this is that our asset management team and investment teams, led by David Lamb, oversaw the transition of GBP3.5 billion of equities from the original fund to the new fund managers without so much as a hiccup.

I said last time we met that we would continue to enhance our investment proposition, and that's precisely what we are doing this year. This month, our Investment Committee appointed two new managers and a new team from an existing manager. PIMCO, based in California, will manage a brand new multi-asset fund for us. Kenneth Buntrock at Loomis Sayles will manage our Investment Grade Corporate Bond, and Paul Boyne and Doug McGraw of Invesco Perpetual will manage a new Global Equity Income Fund.

We are also introducing an Index Linked Gilt Fund, managed by Blackrock, as part of a new defensive portfolio to add to our existing portfolios. And in April we will appoint James de Uphaugh and his team at Majedie to take over the UK Growth Fund.

So we now have 35 individual managers running the GBP29 billion of client money in some very well diversified portfolios. The key takeaway from all this, or more importantly what the approach delivers, is the unique choice of funds provided to clients and Partners alike.

Our association with Stamford Associates gives us enormous scope and reach, enabling us to access some of the best names from around the globe. Let's look at where some of them are based -- Toronto, Newport Beach, Boston, New York, Milwaukee, Massachusetts, Virginia, not to mention Singapore and Wakefield. And a number of these are not available to UK retail clients through any other means. There is no IFA group out there that can give clients access to these names or provide the reach that we can through our investment approach.

The role of Stamford Associates in all this is crucial, not least to the level of due diligence they carry out on our behalf. Here's what Ken Broekaert of Burgundy Asset Management said recently when asked about that process -- the most thorough and most professional that we've ever experienced, going beyond the depth and detail we've seen before. That's why we refer to our proposition as our distinct investment management approach.

Finally, I believe our management team and Board are in good shape too. All three of my executive colleagues here today do a great job for this business. We've worked together now for 19 years, and very closely as an executive team for five years.

The teams beneath them have largely come through the business too, and provide strength and depth. There are clear lines of responsibility, Ian and his team driving distribution, David and his team driving our investment approach and the development of additional services, and finally Andy and his finance team overseeing investor relations and all things financial. Between us, we have a clear focus on delivering against our three; to five-year business plan.

Turning to the Board, and following on from what Charles said, I'm also delighted that Baroness Wheatcroft is joining our Board. Patience will join other recent additions in the form of Iain Cornish, who joined the Board in October, and Vivian Bazalgette, who was appointed to the Board in July last year. This trio brings us a great degree of relevant experience which I know will benefit all of us in the future.

So as I said at the beginning, we are in great shape and well positioned to capitalize on the market leading position we hold in the face-to-face wealth management sector. The Partnership is strong, our investment proposition broad and compelling, and our management team from the Board down is determined to deliver on our medium-term objectives. Our aim is to double our funds under management in the next five years. And whilst more of the same may be enough to achieve it, we will explore other ideas and accelerate our thinking as needs be.

With that very much in mind, I am very excited about the relaunch of the Academy, which is now up and running with the first intake in place. And we've planned two more intakes later in the year.

Alongside that, we also plan a family business intake. That's sons and daughters of existing Partners who want to come in the business sponsored by their parents, great for succession and great for the next generation of clients too. We already have over 40 sons and daughters working in their parent's practices, so we know it works. The Academy should deliver real results for us towards the end of next year, and into 2014 and beyond.

We'll also be looking to broaden our client offering with the provision of banking and other services that complement what we do. For example, this year we plan to explore the areas of discretionary fund management and private client stockbroking services. And whilst no decisions will be taken until our work is complete, we are optimistic we can expand our offering in areas which make sense for clients as well as the business and for our shareholders.

The fundamentals of our market haven't changed in 20 years. As I've said on a number of occasions now, the provision of good old-fashioned face-to-face advice is what we do and what we will continue to do. More clients today are facing huge pre; and post-retirement decisions and need help. Pension simplification, as it was once referred, is far from simple. Tax reliefs with carry back and carry forward options, protected fund provisions, are all far from straightforward.

And both the media and consumers are beginning to recognize that fact now. Hence our confidence not only in our business model, but also the market we are playing into. Whilst others may seek to exploit the direct-to-consumer model, we will continue to build long-term relationships with our partners and our clients, much as we have done in the past. We believe that is the most effective and efficient way to build, and importantly retain, funds under management for the good of all of our stakeholders.

New business in the quietest two months of this quarter is running at the same level as the final quarter of 2011. Our funds under management have grown to GBP29.5b. And with 6% more Partners and fewer distractions, we have a great platform for future growth this year.

What is just as important, though, is the growing and predictable cash flows that our business model is now delivering as business generated in previous years matures. Shareholders are beginning to see the rewards of our strategy, not only from the strong growth in the share price in the last year or so, but from the unbroken growth in dividends over the last five years, and the particularly strong growth last year, this year and into next year and beyond, all supported by the increasing cash flows generated from our growing funds under management.

So I hope you can see from today clients have a much broader investment proposition and means [ph] of services being made available to them. The Partnership is in great shape. And as we celebrate our 20th anniversary, our Partners and employees at all levels have a greater sense of pride and passion for this Company than ever before, as do the executive team. And we are all part of a company delivering real value to shareholders.

Thanks for your time this morning. I'd now like to ask my colleagues Ian, Andy and Dave to the front desk, to take any questions you may have. Thank you.

Questions And Answers

A - Charles Gregson {BIO 1529731 <GO>}

I'll stay here and feed the questions on to the three of them, David.

A - David Bellamy {BIO 14025555 <GO>}

Yes.

Q - Gordon Aitken {BIO 3846728 <GO>}

Yes. It's Gordon Aitken from Royal Bank of Canada. In the (technical difficulty).

And secondly (technical difficulty) can you give us some examples of what those (technical difficulty)?

A - David Bellamy {BIO 14025555 <GO>}

Well first, David, do you want to take the tax relief, pension point?

A - David Lamb {BIO 15016583 <GO>}

Sure. I think a couple of points here. Obviously it increases the cost of just providing for retirement for the higher rate taxpayer, so definitely there is a need to provide for retirement. And what I mean, if you just look around for other ways of doing it alongside the basic pension tax relief. So I think things like, for example, unit trusts, offshore savings plans will increase in attractiveness to clients if that happens.

In the actual practicality, though, the second point, influencing it is quite tricky in terms of the impact on, for example, final [ph] public pension scheme holders. They're non-contributory pensions; we're paying tax every year. So there are some real wrinkles in the detail about how you actually might do this. But it doesn't take away the need and the fact there's a very, frankly, growing marketplace. There is a new generation of people retiring in final public pension schemes in the next five or 10 years. That's all going to be finishing.

So the market is enormous. The need is still there. So things like offshore pensions -- offshore savings plans, unit trusts will come in alongside the other aims that we have today for higher rate tax payers. They'll have to do something. They can't not do something.

A - David Bellamy {BIO 14025555 <GO>}

Ian, do you want to pick up the IFA recruitment point?

A - Ian Gascoigne {BIO 4439479 <GO>}

Yes. The concept of people knocking on our doors and beating the doors down to join is -- I have heard that before. It isn't actually like that. It's still -- they still need to be recruited and make a substantial transition into our business.

In terms of selection, the first thing is obviously there has to be a certain quality and productivity, and the business shape that they do fits what we are able to provide for them. The second point is the transition also involves -- there is a level of sharing values of the business and what we are trying to do for clients over the long term, so there has to be a value fit.

And the third point I wrote is something about having a bigger future than a past, and that we are looking for people who are future orientated, committed to looking after clients for the long term and fit that model, rather than people who are very close to exiting the business and are looking for a (multiple speakers).

A - David Bellamy {BIO 14025555 <GO>}

Yes, Oliver.

Q - Oliver Steel {BIO 6068696 <GO>}

Oliver Steel, Deutsche Bank. I'm just trying to compare slides three and five, slide three being the quarterly new business trends and slide five being the quarterly net inflow trends. I suppose two questions here. By way of background, what it shows is that you generate most of your inflows in the last two quarters of the year but you generate most of your sales in the first two quarters of the year. So question one is why is that different? Why do you not -- why do you see so many implicit outflows in the first two quarters of the year?

Then, secondly, in respect of your comment that First Quarter sales year to date are in line with the Fourth Quarter, what does that imply in terms of net inflows year to date versus either the First Quarter or Fourth Quarter last year?

A - David Bellamy {BIO 14025555 <GO>}

Andy, I'll let you take the first part of that question, because I'm not sure there is a difference between the two halves.

A - Andy Croft {BIO 5711239 <GO>}

Yes. I think the key point, Oliver, is that slide three is APE and slide five is funds, so I'm not sure you can necessarily compare the two.

Q - Oliver Steel {BIO 6068696 <GO>}

(Inaudible) (microphone inaccessible).

A - David Bellamy {BIO 14025555 <GO>}

APE is the traditional measure of 10% of single premiums and the annualized regular premium. So it tends to take a different shape than the single premium flow per se. And I think the second slide Andy's referring to is funds under management, which is very market driven, so.

A - Andy Croft {BIO 5711239 <GO>}

And I think -- I've not considered your question in the past, so it's a good question I'll go away and think about. But actually, if you look at the quarterly IMSs we put out, the lapse rate or surrender rate consistently stays at 5%. So there's something else within your question that I just need to think about.

Q - Oliver Steel {BIO 6068696 <GO>}

(Inaudible) (microphone inaccessible).

A - Charles Gregson {BIO 1529731 <GO>}

Are you taking that, David, or...

A - David Bellamy {BIO 14025555 <GO>}

Yes, yes. The statement was about the first six weeks or so of this year, where we were running at the same rate as we were in the final quarter of last year. 45% of Q1's business will come in March, when people traditionally have the end date of the tax year to deal with their tax provisions, to deal with their ISA allowances, use it or lose it. And so the First Quarter will be very much defined by that performance in March.

Either way, we are confident that we will achieve gross inflows much the same. And if you look at the final quarter of last year, GBP1.2 billion of gross inflows, GBP800 million of net inflows, we are talking about similar sort of numbers. We will still attract the best part of GBP1.2 billion of gross inflows. And as Andy said, that retention, that underlying retention rate, is pretty much maintained at 95% for four or five years now, and there is no reason to see or believe that it will change going forward.

James.

Q - James Pearce {BIO 16758460 <GO>}

Morning. Couple of things. First of all, in your commentary on the margin, you talk about reducing life remuneration again. I think last year you did it to equalize it with unit trusts, but there's no balancing effect.

A - David Bellamy {BIO 14025555 <GO>}

We did it over two years. So we signaled the best part of two years ago that we would bring our 3.6% remuneration on life bonds down to 3% over a two-year period. So last year, in 2011, we stepped down from 3.6% to 3.3%. This year we are stepping down from 3.3% to 3%, and so that by the end of this year we will be equal -- for this year, the start of this year we are equal.

Q - James Pearce {BIO 16758460 <GO>}

Okay. Number two, can we assume the distribution profit is recurring, because I think we had it last year, then there was zero in H1, and now it's back again? What's the outlook there?

Third, I think 9% of your Partners are not qualified, or within two exams of qualification. What happens to them at the end of the year? Do you think they will all of them qualify, or will there be some dropouts? And will that be a 9% or whatever fall in sales as a result? How do we size that issue?

A - David Bellamy {BIO 14025555 <GO>}

Well let me just deal with the last point first. 82% fully qualified, 11% within one or two exams, bearing in mind there's five papers, five exams to qualify for a diploma. So as far as we are concerned, they are two-thirds of the way through. And we know from the momentum those people have, which came to 93%. The remaining 7%, as I said in my words, was that half of them have joined us in the last 18 months, and they're IFAs that have come on board. We will give them the support. And I have no doubt, they haven't joined us for 18 months, they've joined us for the long term.

As Ian said about the future, there was a small percentage that's left, some of which will make it, 1% or 2% will simply be those people who choose to retire early, so people who were thinking of retiring in 2013 or '14 that may well simply say the investment into diploma is not worth the return from their perspective and quality of life, and whatever. It doesn't alter our aspirations for where the Partnership goes.

Andy, on the margin?

A - Andy Croft {BIO 5711239 <GO>}

Yes. The distribution profit is a recurring item. It will vary depending upon new business levels and expenses, but it is a recurring item.

Q - Toby Langley {BIO 15924432 <GO>}

Good morning, everybody. It's Toby Langley from Barclays. I've got a question on the dividend. If I look at the cash cover, so it's the cash results versus the dividend, I think the maths is roughly working out around GBP40 million for the nominal cost of dividend. You've got a cover ratio of about 1.7. Is that kind of where you want to keep it, and am I looking at the right metric there?

Secondly, on the Academy, you mention you've got 16 new recruits last month. What's the lead time on that bunch of people and when do we expect them to start delivering contributions to the AUM?

Then, on higher rate tax relief again, I recognize that there is definitely a need. Anybody who is applying logic to this situation understands that there is a need, but nonetheless policymakers aren't necessarily fully aligned with that understanding. And so with this in mind, maybe it might be helpful to us to know what proportion of pension sales actually have tax relief attached to them, because it's my understanding that the vast majority of the stuff that you're marketing is single premium transfer and not necessarily really affected by this anyway.

So it would be good to know what new money -- and it may not be something you can give us now but something going forward -- new money that has relief attached to it, or is motivated by relief, would be useful.

A - David Bellamy {BIO 14025555 <GO>}

Okay. Andy, do you want to take the dividend cover point first?

A - Andy Croft {BIO 5711239 <GO>}

Yes. On the dividend cover, one of the other things we've said we are doing is to build a dividend reserve. That's what I've termed it on the balance sheet. So we would be holding one year's worth of dividend as a cushion to any fall in income as a result of difficult markets. So at the moment we are in the process of building that dividend reserve. We probably have about GBP30 million set aside now. And the payout ratio will be lower than we would ultimately expect whilst we build up that dividend reserve.

Q - Toby Langley {BIO 15924432 <GO>}

We can expect one point -- the current level to persist while you continue to accrue that?

A - Andy Croft {BIO 5711239 <GO>}

I think that's probably fair, yes.

A - David Bellamy {BIO 14025555 <GO>}

Ian, do you want to talk about the Academy?

A - Ian Gascoigne {BIO 4439479 <GO>}

Yes. The -- I think you made the point that that group of people will start contributing towards the end of next year, and then continually going forward, so end of 2013 into 2014. Besides that, we have got 54 own-grown advisors in the Partnership already from the previous pilot, so we have got a model that works. And we are very confident about the flow of new people coming in via the Academy, but they won't have a material impact on business till the end of 2013/2014.

A - David Bellamy {BIO 14025555 <GO>}

And the aspiration for the Academy, as we said last time, is that the investment we are making in the Academy will hopefully contribute circa 25% of our recruitment growth, our net recruitment growth, in two or three years' time and thereafter per annum. That's the scale of what we were trying to deliver here.

David, do you want to come back to the pension and tax relief point?

A - David Lamb {BIO 15016583 <GO>}

If you think about single premium pensions in particular, I think the point (inaudible) in that part of the question. There are three types really of single premium pensions that you will attract in the marketplace. One is somebody who wants to make a lump sum contribution out of a bonus payment, something like that. That market change in April last year, when they reduced the cap to GBP50,000, leave aside the carry forward facility that these products (inaudible) in a year, that changed the nature of that market.

The two other areas where they were not affected are the transfer market and the drawdown market. And both those areas, which account for the majority of our single premium business in terms of pension business, we continue to attract funds from other pension providers, just as people sit down, talk about what they want their investment proposition to look like going forward.

And secondly, the drawdown market increases and will continue to increase, because there's a lack of attraction of annuity. The low interest rate environment that pension (inaudible) started to look at, but a lot of it has earned frankly other returns and paid -- annuitized their pension pots, as we've done in the past.

So the drawdown market is big and increasing; the transfer market is increasing for us in terms of the way we play in that space. I think the pure single premium, what I call the cash bonus market, will change in April this year. Apart from carry forward, it's the smallest part of that whole pot.

A - David Bellamy {BIO 14025555 <GO>}

Come to this [ph], yes.

Q - Andy Hughes {BIO 15036395 <GO>}

Hi. Andy Hughes, Exane BNP Paribas. A couple of questions, if I could. The first one I guess is on low investment income and charges. I guess you are talking about having an index-linked gilt fund for some of your policies. Is there any danger that you might review the 1.5% charge down, in light of the fact that obviously investment income is not very high now so it's going to erode a material amount of people's investments? Are you getting pressure from the Partners to review down the charging level in light of current investment conditions?

And I guess there's also -- in a backdrop to that, there's also been some rumors again -- started again about a charging cap on pensions. Now, if a charging cap on pensions were to come in, my guess is it would be lower than 1.5%, and that could be material, I guess, for the business model if that were to be a problem. Thank you.

A - David Bellamy {BIO 14025555 <GO>}

Dave, do you want to talk about the...

A - David Lamb {BIO 15016583 <GO>}

Investment income [ph]?

A - David Bellamy {BIO 14025555 <GO>}

Yes. I think the portfolios [ph] were -- and charges generally, I think.

A - David Lamb {BIO 15016583 <GO>}

I think -- in terms of index-linked gilts, there's two components in the total cost for a client. Well that's what I'd say. There's administration costs, the advice fees and the fund management fees, and we do all that in one number. The index-linked gilts, the fund management piece in that is 6 bps. So that's very cost effective as an access for index-linked gilts.

The advice fees (inaudible) part of the same results. All of our products (technical difficulty) 3% across the board and half (technical difficulty) across all our product mix.

So the second part of the question is where the charge is going in the marketplace. Right now, through the work we did last year with (inaudible) and looking at our charges compared to marketplace players, we know that on a like-for-like basis we are absolutely in line with the marketplace.

If there is a change (inaudible), would the regulation come along and cap on pension charges, I don't know. If they do that, it would affect everybody in the marketplace. So from an SJP specific thing, we'll see what happens if they decide to regulate charges in the marketplace. I'd be surprised, but let's see.

Q - Andy Hughes {BIO 15036395 <GO>}

If I could just come back on that, 0.5% trail plus, if I take the numbers you've given me on cash flow for the GBP10 billion and the GBP70m, obviously that's another -- the GBP10.8 billion generates another GBP70 million of cash. Obviously there is a big profit margin there as well. So your total charge must be about 1.2%, plus the 6 basis points for the fee.

A - David Lamb {BIO 15016583 <GO>}

Our total -- sorry, our total charge for our product range is 1.5% plus the total fund management charge. That's just across the product range (inaudible). It's been that way since the launch, so that hasn't changed. And if there is a change in the balance in the marketplace generally, then we would look at that in the other businesses. But that isn't on the cards right now today.

Q - Andy Hughes {BIO 15036395 <GO>}

Thank you.

A - David Bellamy {BIO 14025555 <GO>}

Barrie.

Q - Barrie Cornes {BIO 2389115 <GO>}

Hello. It's Barrie Cornes at Panmure Gordon. I've got three questions, if I may. First of all, Andy, the change in the risk discount rate moving from a certainty, that model, I think you described it to one where you're adjusting it at the beginning of the year. Can you give me a bit of background to that, because you also changed the corporate rate -- the corporate tax rate? Then again you stood aside from doing that previously. So your thinking behind that is my first question.

Second question I think is in respect of the Chairman's statement. It talks about building on the future, and obviously you've strengthened the Board. I just wondered if you might be looking to change, over and above the private client stockbrokers and the banking that you talked about, David, whether or not you're looking at other areas such as overseas branching abroad, in terms of the business model.

And lastly, I think, just picking up on James Pearce's comment on the number of exam passes. I think where James was really going is whether or not the Head of Sales has actually started taking his exams (multiple speakers).

A - David Bellamy {BIO 14025555 <GO>}

I'm so pleased you asked that, especially without coercion. Ian.

A - Ian Gascoigne {BIO 4439479 <GO>}

I think it's more appropriate I'm the last one through the door. Everybody's shepherded in through, and I'll make sure there's no waifs and strays behind me. I will be taking a few exams this year, that's for sure.

A - David Bellamy {BIO 14025555 <GO>}

Thank you, Barrie.

A - Ian Gascoigne {BIO 4439479 <GO>}

Thank you, Barrie.

A - David Bellamy {BIO 14025555 <GO>}

Andy, do you want to deal with the gilts and tax?

A - Andy Croft {BIO 5711239 <GO>}

Yes. The gilt -- no, I'll do the tax first. The coalition has clearly laid out their intention to reduce corporation tax by 1% in each of the next two years. When they first announced that, there was some uncertainty, I guess, as to whether or not the coalition government would survive over that period of time. And I think it's become more and more certain -- certain is probably a very strong word -- more and more likely that the coalition government will survive and will carry out.

And they have shown that they will carry out what they've said they are doing. So therefore, on a best estimate type basis, it's appropriate to take into account those future tax reductions.

On the discount rate, just to be totally clear, the embedded value at the end of the year will still be calculated based on the year-end economic assumptions. What I'm talking about here is just which line the movements will take place in. And I think what we've seen this year, with a big reduction in the discount rate driven by the UK gilt rates, it's caused some confusion in terms of the operating profit versus the total profit. So the move is really to help people forecast the numbers, including me.

A - David Bellamy {BIO 14025555 <GO>}

In terms of future plans, not being on the agenda in the short term, Barrie, the corporate appetite pretty big, as I said, to double our funds under management over the next five years. We think we can do that. I'm not sure it's right to say organically, because we acquire new Partners, we acquire small ISA practices, we acquire new fund managers to help broaden the proposition, and we are focused this year.

First and foremost, we need to get everything in place for the RDR switchover on January 2, but we've got some back office initiatives streamlining our investment process. We call it straight-through processing. It's like electronic business transactions. That's very much a focus. We've added some 20 new fund managers to the portfolio of fund managers that we offer today. We want that to settle down and really start to be effective. We'll carry on our recruitment and our Academy plans.

And for the moment that's where we are. But we don't rule out the possibility of broadening the proposition beyond discretionary fund management and private client stockbroking services into the future. And what I was trying to relate to, when I talk about -- what's more of the same may well be enough. We will respond and adjust our plans as need be.

Two more questions. One more here.

Q - Daria Asadullaeva {BIO 16508025 <GO>}

Hello, Daria Asadullaeva from Bank of America Merrill Lynch. I've got two questions. First is if you could please talk about the difference in the IFRS tax charge this year, and whether it is related to the change in UK insurance companies' taxation.

And the other one is if you could give an update on the private banking initiative as well. Thank you.

A - David Bellamy {BIO 14025555 <GO>}

Okay. Andy, yours is the first and David --

A - Andy Croft {BIO 5711239 <GO>}

Yes. Shall I go with the IFRS tax charge? There are two things driving the IFRS tax charge this year. One is the change in corporation tax rate, and you'll see that that's reduced the tax charge by GBP7m, because there were two 1percentage cuts this year. Going forward, you will see under IFRS a further 1% reduction in 2012, when it's enacted, and a further 1% reduction in 2013. So I would model GBP3.5 million reduction in tax in both of those years.

The second item that's going on is what we've termed market related tax effects. And this gets particularly complex. It is not a recurring item, so I would certainly model zero going forward. It has nothing to do with the forthcoming changes in life company taxation.

A - David Bellamy {BIO 14025555 <GO>}

David, do you want to do the private banking stuff?

A - David Lamb {BIO 15016583 <GO>}

As it happens, we've been doing a lot of work on this. We talked about this last time. And in March this year we start rolling out a pilot with a group of Partners. And the pilot is going to initially focus on total tax year-end planning (inaudible). We've put in place a governance process and a whole of market approach to that.

We are also, as part of that, putting in place two centralized things. One is we're centralizing advice around some of the bigger advice conversations that are going on, and a different scale of proposition around that. So we're going to roll that out in a pilot-driven test (inaudible). And we've also tied up with some extra law firms to do things like funding to Partnerships and PPPs [ph] for those sorts of clients. So all of that will be tested out in March with this group of Partners.

Later in the year, two things that are in the second wave, if you like, where we've done a lot of work looking at hedge funds for our clients. And we haven't decided yet, but we are working with a couple of external advisors and are exploring either doing portfolios of fund-of-fund hedge funds to that market. We may or may not do that. Until we finish that exercise, we won't go live with it, but we will be certainly well down the track in looking at how that might work.

And the second area which we are also well under track on is looking at some of the things to do with the private client stockbroking, so if you like (inaudible) accounts and custody accounts in the St James's Place standard way.

So there's a lot of work in the background. The pilot will tell us how successfully that will start to land with the clients and the Partners, and we'll grow it slowly from there.

A - David Bellamy {BIO 14025555 <GO>}

Thank you, David. James, another question.

Q - James Pearce {BIO 16758460 <GO>}

Yes. A couple more things. Could you talk about how you expect your shareholding structure to evolve, one shareholder in particular?

And second, you had a big positive experience around persistency. Have you rejigged your embedded value assumption to reflect the better than expected persistency, or do you not expect it to persist?

A - David Bellamy {BIO 14025555 <GO>}

On the Lloyds question, which as a result there's no change. And the (inaudible) shareholders will carry on with their business -- our business. They've clearly got their own agendas and there's no update, no change from last time we spoke.

Andy, do you want to...

A - Andy Croft {BIO 5711239 <GO>}

Yes, on persistency, we set the persistency rates on long-term experience. And what we are seeing at the moment is our retention is stronger than the long-term experience, but we will still use the long-term experience to set the rates. So we haven't -- apart from round the edges, there's been no change.

A - David Bellamy {BIO 14025555 <GO>}

We've still got a few more questions to go. Yes.

Q - Marcus Barnard {BIO 2103471 <GO>}

Yes. Marcus Barnard from Oriel Securities. A couple of questions. Firstly, on the equalization of remuneration between unit trusts and life products, is that going to make any difference to the mix of business you sell in future, and does it really matter? Is it going to affect the margin, or whatever?

And secondly, do you have any feel for what percentage of your new business comes from city bonuses and how that might be impacted this year? And perhaps that might help explain Oliver Steel's point about seasonality.

A - David Bellamy {BIO 14025555 <GO>}

I think on the unit trusts and life business, my view is that it makes no difference at all. The right advice is the right advice. I don't believe people were doing things for 0.6 reasons or 0.3 reasons. And the overall remuneration, we have certainly not seen any shifts in any of the patterns there. So that was an equalization point. I think Andy made the point in last year's accounts, or the year before, that we also made the move on the trail on ISA business by April year before last to also equalize that. So in overall terms, we are about breakeven in terms of the corporate balance sheet, so to speak.

New business bonus, Ian and David can comment on this. I'm sure the bonus season may have an effect. If you look at our investor presentation, you look at the geographic coverage of the Partnership and where the money lies, it's a very small part of the overall business. 9% of the Partnership and circa 9% of the funds under management sit in and around the center of London. That's city center, if you like. It may have a small impact, but I think, as David said, with the pensions relief and the GBP50,000 cap coming in, that we are already impacted in that marketplace in any event. So I don't imagine there will be a significant --

A - David Lamb {BIO 15016583 <GO>}

No. I think if you look at it, our scale is such that the city bonus market is not out to do that. It's there but it's not (inaudible).

A - David Bellamy {BIO 14025555 <GO>}

It's one of those illusionary things that hit the press three or four years ago, that St James's Place was very city centric. It was one of the reasons that we put the map in the investor presentation in the first place, to make the point that our GBP29 billion is pretty much in line with the demographics of the UK, as the Partnership is.

We'll take two final questions and then we'll wrap it up. Thank you, Robin.

Q - Robin Buckley {BIO 3596512 <GO>}

It's Robin Buckley from Deutsche. Can I just ask a question about investment performance? You used to put some slides up just showing how your investment performance was doing by quartile. And I guess I'm interested in that, firstly in terms of how the model portfolios have performed in particular this year against whatever benchmark you want to provide, but also just in terms of rolling out the number of fund managers that you now have. And you are talking about the amount of choice that you provide to clients in terms of the fund managers that -- funds that they can invest in.

How does that sit in terms of absolute performance versus total choice? What's the trade-off there that you see, because I guess historically one of the key selling points was just in terms of the strong track record that you had?

A - David Lamb {BIO 15016583 <GO>}

Yes, I'll pick that up. If you look at our rolling five-year numbers, we presented that bar chart graph and you can see the top -- instead of the medium, the top half of that, over each running five-year period, we'd have between 65% and 75% of our funds under management in the top half; typically most of that in the top quartile. If you look at last -- a rolling five-year period, each of the last three years, that was around 70% for the last two years, and it moved slightly, and 2011 running slightly (inaudible) around 65%.

The changes made over the last three years, including 20 managers, is a -- directly will impact that going forward now, because it changes the mix quite a lot. And therefore, one of the risks of bringing out portfolios was to help people, clients and Partners pull together the right combinations of managers for the future.

So the portfolios were one year old literally at the end of January this year, so we had those. So they've done exactly what we expected in terms of the relative performance, relative to each other and relative to the market. And that shouldn't be a big surprise, given the amount of work we've put into constructing these things.

As we go forward now, I'm sure we'll start playing back to you information about how the portfolios are performing. There will be reviews. There have been reviews right now for the coming 12 months. We need to change them again. And that will be a continuous process. It's part of the investigative work.

So the performance figures over a rolling five-year period look broadly consistent, the last, as I said, 65%, in the top half. And the five years ending January this year is very consistent. It's marginally down on what it's been in the last two or three years, but it's pretty consistent across that picture.

A - Andy Croft {BIO 5711239 <GO>}

Another thing, sorry, just one other thing, if I may, David. The other thing, by introducing all the managers, is we were very exposed to a number of large managers, if we went back three years ago. But now it's significantly changed.

A - David Bellamy {BIO 14025555 <GO>}

65% of the funds under management at the end of 2009 sat with four managers. And this has been a deliberate strategy that we've deployed, to broaden our investment proposition. And one of the reasons for introducing the portfolios was to make sure we put some structure around the amount of choice and how you model portfolios, selecting from that choice, depending on clients' attitude to this.

So I think we've got to that stage now where you look at the fund selection, you look at the portfolio, and it is, as I said in my words earlier on, very rich. It's selected from across the globe and it's about right now. Surveys we do with our existing Partners, senior and principal Partners, we've asked them the very question about the investment proposition. They are delighted with the portfolio. And they are very -- I think it's probably the right word to use -- satisfied with our investment proposition today in terms of we have enough.

The other thing about the better fund choice is -- if I come back to our aspirations to double our funds under management over the next five years -- we now have the breadth of fund management offering to enable us to grow in that space, and a lot of capacity across a very broad base of fund managers to give us the platform for growth. So very deliberate strategies against where we are. We are in a good place right now.

One final question and then -- providing it's a nice positive one.

Q - Andy Hughes {BIO 15036395 <GO>}

I'll try my hardest, sorry. Sorry, asking how much you charge is probably not a good start, my first question.

A - David Bellamy {BIO 14025555 <GO>}

No. It's not, no.

Q - Andy Hughes {BIO 15036395 <GO>}

It's Andy Hughes from Exane BNP Paribas. So I guess I'm most curious about the transfers, coming back to that. I think David said something which got my interest up, which was that you were accepting a wider range of transfers going forward. And I guess what I'm trying to do is -- it would be helpful if you could give some color on this. In terms of the single premium inflows you are getting, how much is transfers, and split that between DB and DC?

Then maybe, looking at the DB bit, when interest rates some down, presumably you get bigger transfer values from the DB schemes.

A - David Lamb {BIO 15016583 <GO>}

Okay. Just on the DB/DC split, the vast majority, very few DB transfers. DB transfers are very complex technical conversations with individual clients. There are some. They are very rare, because of the nature of what you are giving up in terms of guarantees. So most -- the vast majority by a long way is DC transfers, and that is a growing marketplace. Given the fragmentation, the historical fragmentation of this marketplace, there is a big consolidation path there.

And also, the drawdown market is a market (inaudible) and it will grow, grow partly because of annuities which are poor value in terms of lower rates, and partly because of maturing pension funds that are arriving there.

Q - Andy Hughes {BIO 15036395 <GO>}

And I guess the second part of the question, so you took a proportion and you'd say it's mainly DC?

A - David Lamb {BIO 15016583 <GO>}

Oh, absolutely.

Q - Andy Hughes {BIO 15036395 <GO>}

What, about 80% of the business?

A - David Bellamy {BIO 14025555 <GO>}

More than 90%, more than 90%.

A - David Lamb {BIO 15016583 <GO>}

More than 90%. A few, a few specific DB scenarios, but they're tiny (multiple speakers).

Q - Andy Hughes {BIO 15036395 <GO>}

No, but in terms of the single premium proportion that is transferred, is that around 80%, or is it...

A - David Lamb {BIO 15016583 <GO>}

It's around two-thirds, three-quarters, and that's last year's figures. It's (inaudible) around that sort of number.

Q - Andy Hughes {BIO 15036395 <GO>}

Okay. Then I guess the following question was on income drawdown, which is I guess you mentioned interest rates coming down being a positive thing for income drawdown. But obviously the amount of income you can take from income drawdown is also coming out -- coming down as well. And that's not changing investors' attitude to an income drawdown product, the fact that they can only take out, as a maximum income, a very low amount?

A - David Lamb {BIO 15016583 <GO>}

Currently, under the current guide rules, that's right. But I think that's still more flexible going forward than buying an annuity today, which has no chance of change in the future. I would think, if we end up with 2% gilt yields for the next five or 10 years, we'll see some changes in the way drawdown (technical difficulty).

Q - Andy Hughes {BIO 15036395 <GO>}

Okay.

A - David Bellamy {BIO 14025555 <GO>}

Okay? On that very high note, we'll end the questions. Thanks for your time this morning. Thank you, to my colleagues. We'll be around if you have any further questions over coffee. Thank you.