S1 2012 Earnings Call

Company Participants

- Andy Croft, CFO
- David Bellamy, CEO
- David Lamb, MD
- Ian Gascoigne, MD

Other Participants

- Alan Devlin, Analyst
- Ashik Musaddi, Analyst
- Barrie Cornes, Analyst
- Blair Stewart, Analyst
- Colin Simpson, Analyst
- James Pearce, Analyst
- Marcus Barnard, Analyst
- Paul De'Ath, Analyst

Presentation

David Bellamy {BIO 14025555 <GO>}

Good morning everyone. Welcome to our preliminary result. Thank you, all for coming.

There are three parts to today's presentation. Firstly, a resume of our new business performance in 2012, focusing on the growth in the partnership and performance of it. Secondly, an in-depth review of our financial performance covering profits, cash flows and dividends. And finally, an overview of the business as a whole, looking at clients, markets and the future. I'll address the first point now, hand over to Andy to cover our financial performance and then return to the more general overview and how we see the future.

Let me start with a very brief resume of the new business results and partnership performance last year. 2012 was, without doubt, a very challenging year. Investment markets were once again somewhat volatile with the FTSE 100 starting the year at 5,700, rising to just short of 6,000 in March, falling back to 5,250 at the beginning of June and then gradually recovering in the second half of the year with the occasional spike, finishing at just short of 6%. Whilst our new business doesn't follow this shape, the volatility in the market was clearly reflected in investor sentiment and that is an important driver for the business.

Here are our four quarters of 2012, showing clearly how the year unfolded for us. Negative growth in Q1 of minus 3%, followed by growth in Q2 of 13%, giving us a half-year position of plus 8%. I should point out that the Q2 APE figure was flattered a little with the presence of a couple of very large non-manufactured Group pension schemes, which Andy mentioned, if you remember, at our interim presentation.

Q3 was when we began to see signs of investor confidence returning. Whilst we posted 8% growth in the quarter, we said at the time that the quarter ended much more strongly than it began and that we saw that momentum continuing into October when we released the Q3 numbers. We were, therefore, confident of a strong finish but surprised ourselves with the strength of that finish, up 46% on the quarter 4 of 2011. And whilst the growth figure was flattered by the relatively low comparative, we had nevertheless seen a marked improvement in the new business and funds under management in the second half, and in particular in Q4.

The end result was growth of 16% for the full year measured in terms of APE, with new single investments of GBP5.9 billion.

Alongside the new business inflows, we've maintained our strong track record of retention of funds under management and their performance. Consequently, net inflows were GBP3.35 billion for the year and our total funds under management increased by GBP6.3 billion to GBP34.8 billion.

2012 also saw much activity across the industry in preparation for the implementation of the changes coming from the Retail Distribution Review. Advisors were faced with achieving their professional qualifications whilst businesses reviewed their distribution strategies, given the significance of the changes. At St. James's Place, I am pleased to say that our entire distribution, the St. James's Place Partnership, and the advisor community that works within the partnership, have all achieved their required qualifications. Over 2,000 people are now fully qualified.

Whilst there was much speculation as to the number of advisors who would retire early, we saw just 3% of our community do just that, much fewer than we would have expected a couple of years ago. Despite those early retirements, recruitment of new advisors was particularly strong last year and enabled us to more than replace those early retirees with growth in the partnership of just over 8% for the year. An excellent result and one that bodes really well for the future.

We also saw 55 people join our newly re-launched Academy with a further 16 who joined our next generation program, which again bodes well for the future sustainable growth of the business.

So some excellent new business results with equally excellent momentum in partnership recruitment, giving us in summary new business growth of 16%; new single investments of GBP5.9 billion; funds under management up 22% to GBP34.8 billion; and partner numbers up 8.4% and all fully qualified.

So let me pause there, having given you a brief resume of the new business and partnership numbers, hand over to Andy to go through the financial performance and then I'll come back and complete the presentation. Andy Croft.

Andy Croft {BIO 5711239 <GO>}

Thank you, David. Morning, everyone. In the next 15 minutes or so, as usual, I'll be covering the EEV, IFRS and cash result. As well as covering the 2012 outcome on each of these measures, I'll also be looking back on how these results have developed over the last five years.

So firstly then, let's look at the usual breakdown of the EEV result. As you can see, the new business profit for the year was GBP276.8 million, 13% higher than 2011. As SJP is growing strongly, this remains the major contributor to the EEV result. As you know, the new business profit is determined by the level of new business, business mix and expenses.

If we grow new business by a greater amount than the growth in expenses, then the margin will expand, the operational gearing. Now this can be illustrated over the last five years by firstly looking at the growth in APE for this period. 2012 APE is 77% higher than in 2008. It is also interesting to note the resilience and predictability of our new business during this difficult economic and market period.

The next slide shows the growth in the establishment expenses over the same five-year period, with 2012 position being just 9% higher than 2008. As the majority of our establishment expenses are fixed in nature this, together with effective expense management, has helped to control expense growth during this period. Whilst we will continue to maintain pressure on these expenses, we expect these costs will increase in future years as we continue to invest in our infrastructure and as we continue to grow the business.

The combined position results in the growth in the EEV new business profit year by year and the operational gearing provides for the 2012 new business profit being some 124% higher than 2008. And as a consequence, the margin has always -- has also increased over the same period.

On a PVNBP basis, which reflects only our manufactured business, the margin has increased from 3.9% to 4.7% over the period. And so long as we continue to grow new business and maintain expense growth to a lower level, then the operational leverage will result on ongoing margin expansion.

Now returning to the breakdown of the EEV result. The expected profit from the existing business, the unwind, at GBP96 million is marginally higher than 2011, whilst the experience variance for the year was GBP4.6 million compared with GBP38.1 million last year.

Continued strong retention of funds under management has made a positive contribution to both years but the prior year, if you recall, also benefited from a lower level of policy administration costs than assumed in the embedded value calculation.

The experience variance in any particular year provides an indication of the prudence of the assumptions underlying the embedded value calculation. And the current slide shows the combined life and unit trust experience variance over the last five years. So in other words, we are seeing a positive experience variance in every year during a period of extreme economic and stock market stress. And the average annual contribution from these positive experience variances is close to GBP20 million. This should provide comfort to investors that our underlying assumptions are prudent and that our EEV should therefore emerge as cash in the future.

Back to the breakdown of the result. There are a number of small positive and negative operating assumption changes, which contributed to a negative GBP4.3 million in 2012 compared with a small positive contribution last year, whilst the assumed investment income provided a small positive contribution in both years.

The profit of the distribution business in the year was GBP5.3 million, whilst Other contributed a loss of GBP15.9 million. Both were at similar levels to the prior year. Other represents the cost of expensing share options, corporate overheads, matching the money raised by staff and partners for the Foundation and other miscellaneous items.

Taking into account all these items, the operating profit for the year was GBP365.9 million, marginally below the GBP371.5 million last year and this is due to the higher experience variance in 2011.

Before having a look at the -- sorry, briefly looking at the five-year record for operating profit, there has been a strong growth trend over the last five years, with growth of 79% over the period. There was a positive investment variance of GBP190.4 million for the year, reflecting the higher stock markets. And this compares to a negative investment variance of GBP180.4 million in the prior year; reflecting that year's lower stock markets.

There was also a small negative economic assumption change in both years, giving a total profit of GBP552.6 million in 2012, compared with GBP190.8 million.

And before leaving the embedded value, let's have a look at the net asset value per share which, at the end of the year, was 461p; up 20%. And the five-year trend is as follows, giving growth of 98% over the period.

Moving on to IFRS; the profit before shareholder tax for the year, at GBP134.6 million, was 23% higher than the year before. The key driver to the result was the higher profit in both the Life and Unit Trust businesses; reflecting the higher income received on funds under management.

And the five-year trend in the IFRS profit before shareholder tax is shown on the current slide. And you will see that the result has more than doubled over the five-year period.

And turning to the cash result. As you're aware, the result is the combination of the cash arising from the in-force book of business at the start of the year, less the cash impact from the new business activity in the year.

During 2012, the cash arising from the in-force business, at GBP152.2 million, was 18% higher than the prior year. On the current slide, you can see the development of this cash emergence in the last five years, which has grown by 67% over the period.

The vast majority relates to fees received on funds under management. And looking forward, as funds under management increase, there will be a corresponding increase in the cash emergence.

And in addition, some GBP11 billion, or approximately one-third of the funds under management, are not currently generating any positive cash flow, but are expected to do so, as each annual cohort reaches the end of its sixth year, the gestation period. If all this GBP11 billion was now through the gestation period, then the post-tax cash result would have been GBP85 million higher.

The second part of the equation is the cash expense arising from new business activity during the year which, in 2012, at GBP60.5 million, was some GBP2 million lower than the prior year. This cost can be considered to be an investment on behalf of shareholders, which will generate income in future years that should significantly exceed the cost of the investment.

The current slide provides details of different measures for valuing this investment. As you can see, the post-tax EEV new business profit is GBP218.3 million. The cost as a percentage of gross inflows of new funds is 1.1%. And the IRR, net of tax, is 22.5%; all measures having improved on the prior year.

The dark segments of each column on the current slide shows this cash expense arising from new business over the last five years. As you can see, it has generally been falling over the period, and is now some 10% lower in 2012, compared with 2008. This despite the increasing levels of gross inflows. This lower cost is a net result of the higher expenses being more than offset by an improving margin arising from the new business.

Over time, this has led to an increasing IRR year by year, which has risen from 16.4% in 2009, to 22.5% in the current year. The chart only shows the IRRs from 2009, as we did not disclose this information in earlier years.

And combining the cash arising from in-force business with this cost of new business activity, provides the net cash result for the year which, at GBP91.7 million in 2012, was 37% higher than the same period last year.

Again, looking at the five-year picture, you can see that the net cash result has been growing strongly, and at 2012 is some 4 times greater than in 2008 and has, therefore, grown at an annual compound rate of close to 40%. This trend of increasing cash result is expected to continue in future years.

It is the cash result which is the key determinant for the Board, when considering the annual dividend. And given the strong growth in 2012, the Board has resolved to increase the full-year dividend in line with the 33% expectation we set last July at the time of our interim statement. Therefore, subject to shareholder approval at the AGM, the final dividend will be 6.4p per share, giving a full year dividend of 10.64p.

Looking at the dividend over the last five years, shareholders have seen an unbroken dividend growth record, and a significant 33% increase in each of the last three years. This has more than doubled the dividend over the period.

Given our expectation of the future growing cash emergence, we have also announced today that shareholders can expect the 2013 dividend to also increase by a similar significant amount. Thereafter, we will continue with a progressive dividend policy in line with the underlying performance of the business.

Before finishing, I'd just like to put up two slides that I've used today, side by side, which demonstrates the growth model.

Firstly, the five-year growth in the EEV new business profit; and secondly, the five-year growth in the cash result. These charts clearly demonstrate a business that is achieving double-digit growth in new business, together with double-digit growth in cash emergence.

And on that note, I will now hand you back to David.

David Bellamy {BIO 14025555 <GO>}

Thank you, Andy. Do you know, he had a bit of humor in the end of that presentation that he has just taken out; which was that he was -- what were you going to say? He was going to say something about as the naturalist, David Bellamy would say, a rare species indeed. That what his final line for that lovely slide at the end.

And that was the cue for me to come up here and take the mickey out of him making a joke. But anyway, it wasn't to be. Thank you.

The business is in great shape. We have some really good momentum in all aspects of the business; in the growth and the development of the Partnership; and in the growth in funds under management which, in turn, is driving strong growth in our profits and cash flows culminating in those growth in dividends.

Three consecutive years of 33% growth in dividend, with a commitment of a similarly significant increase in 2013, and the likelihood of further strong growth beyond that, in line with the growth in the business.

These results come about because of an absolute focus on our business model. Trusted advice and a reliable service, supported by some of the best fund managers in the world, and backed by a well-respected and strongly capitalized FTSE 150 company.

We have firmly kept the business in the advice market, because that's where we believe we can add most value.

In my presentation to you at the time of our interim results, I reflected on the last few years. And by way of a reminder, I said that in 2010, we grew our distribution by 7%, and attracted GBP4.7 billion of new investments. In 2011, we grew our distribution by 6%, and attracted a further GBP5.2 billion of new investments.

And I went on to say that we were on track to deliver 6% growth in partner numbers, and over GBP5.4 billion of new investments; and we would be disappointed if we didn't achieve both. As you will have seen in practice, we achieved 8.4% growth in partner numbers, and GBP5.9 billion of new investments, despite the very challenging environment. And that's testimony to the quality of our people, our investment proposition, and the strength of our business.

I mentioned earlier that our results were against the backdrop of numerous challenges for us; the economic environment; market volatility; and, of course, preparing for the changes coming from the retail distribution review.

And for the Partnership, that also meant achieving their required professional qualifications which, as I said earlier, we were delighted with. Over 2,000 people in our community fully qualified to the Regulator's minimum standard.

What's also encouraging, though, is that for a significant number of the Partnership, achieving the Regulator's requirement is not a resting place. In a recent survey of our top 600 partners, some 45% of them said that they planned to continue their studies, with a view to becoming chartered. And a further 27% of them said that they were considering that journey also.

And from all of our other soundings around the Partnership, we think this is pretty representative of our entire Partnership. It may take them some time, but we will give them every encouragement in the coming years, and ensure that their continued professional development is just that.

We already have over 125 fully qualified at chartered planner level, with a not insignificant number within an exam or two of that level.

And as a very brief aside, we have the youngest Fellow of the Chartered Institute in the country within our community in Cirencester; just 22 years old, a great example to all of his colleagues.

So continued momentum in the development of the Partnership, which doesn't stop now that the RDR is effective; which is good not only for us, St. James's Place, but for the entire industry.

I also mentioned the Academy earlier. And that's progressing well, too. Three groups, or cohorts as we call them, began their career in the Academy last year together with a special program for next generation advisors. Next generation advisors are the sons and daughters of our existing partners.

This year, we've planned five groups; three more Academy cohorts, the first of which began with us last month; and two more next generation groups. And we're very confident of filling those classes during the course of the year, partly through personal referrals and recommendations, partly through individual applications; and partly through the work that we're doing with outplacement groups, be they City types, ex-military groups, or executive outplacements.

Their average age is typically late 30s. And we're delighted with both the caliber and the quality of the people joining the Academy.

Just to remind you, we anticipate students graduating after 18 months or so from joining the Academy. So effectively, from 2014 onwards. And our ultimate aim is that they will contribute around 20% to 25% of our recruitment aspirations year on year.

Alongside our traditional recruitment of experienced and appropriate qualified partner, as a consequence of the various changes in the advisor market, we've also had what is effectively a one-off opportunity to purchase a few good quality IFA businesses, as an alternative means of growing our strategy. And we've acquired four such businesses in the last few months.

Whilst they only count as one partner each, they are, in fact, fairly large practices that will sit comfortably alongside some of our existing large practices that many of you will have seen at the annual Company meetings.

I also mentioned earlier that we recently surveyed the top end of the Partnership and that's something we do every year now. And it helps inform us of their views on a number of aspects of the business, including our investment proposition and some of our clients' views. But we also survey clients, and in recent years have begun a more structured program of that research, partly through using an external agency, and partly alongside the distribution of our client wealth accounts.

Just a few weeks ago, we distributed over 300,000 wealth accounts and client summaries direct to clients over a three-week period. And with those wealth accounts, we enclosed a letter, the report from the Investment Committee, and a brief survey, two or three pages, asking clients for their feedbacks, if they chose to give it to us.

As of last Friday, over 44,000 people had filled out that questionnaire and returned it to us. And we're working through the analysis.

We asked them a number of questions about their experience with us. And whilst we haven't analyzed all the returns yet, and particularly the most recent ones, I thought I'd share with you some of the results from the 30,000 that we've analyzed to date.

88% of those who responded said that the information and communication from us is sufficient for their needs. 9% said we give them too much, and just 3% too little.

80% felt that the frequency of meetings they have with their partners meet or exceed their expectations. 6% said they wanted more.

89% said that in terms of value for money St. James's Place provides, it was either reasonable, good or excellent, with almost 70% saying good or excellent.

And as well as a series of multiple choice questions, we also asked if there was one thing they'd like us to change, what would it be. And around 25% of those that responded, completed that part of the questionnaire, commenting on such things as performance reporting, use of technology, volume of paper, frequency of meetings, and so on. With a number saying just simply, keep up the good work.

So some really good overall results. But we mustn't be complacent; there are things that we can improve on.

In addition to that research, as I said, we also commissioned an external firm, they're called Ledbury Research, to randomly sample a group of clients, by way of a telephone interview.

The results from this work tells us that 75% of those interviewed would definitely invest again, and a further 14% are a possible.

98% are generally or very satisfied with the service from St. James's Place and just 2% not.

And having said that, the survey also tells us that only half of our clients invest more than 50% of their investible wealth with us. So a terrific opportunity if we can deepen the relationship with some of those clients.

We'll be repeating this type of research on a regular basis from now. It's incredibly useful to us, and ensures that we remain very focused on the things that matter to clients; on the advice they receive, and on the positive outcomes for them in every respect.

I think it confirms that we're in the right ball park in terms of what we do today. But there's always room for improvement, which we note.

St. James's Place is perceived by some as being expensive. We don't believe we are, and that price and value are different. And so the question about value for money was incredibly important for us. Price is what you pay, and value is what you get. And it's reassuring to us that the vast majority of our clients agree with that statement.

Having said that, and in respect of pure price comparisons, one of the unintended consequences of the Retail Distribution Review is that the marketplace has become very fragmented; fragmented in terms of cost, and fragmented in terms of responsibility.

The introduction of platforms and the various permutation of platform charges, the separation of advisor charges from product and wrapper charges, and the separation and inconsistency of fund manager charges, mean that clients have a devil of a job, if not an impossible job, to compare prices across different propositions.

They will also increasingly have difficulty in understanding who's responsible for any individual investment proposition. Is it the advisor, the platform, the fund manager, or the product provider? The recent debacle over the failure of Arch Cru gave a brief glimpse as to how confused this area might be in future.

We make no secret of the fact that we are a vertically integrated firm, and that we're responsible for what we do. And we stand behind the advice of every member of the St. James's Place Partnership.

Our charges are very transparent, and I believe we provide value for money. And as I said a moment ago, it's reassuring for me that our clients believe so, too. From all of our research, our charges are competitive, whilst our proposition is probably second to none. But I am a little biased.

Away from charges, one area where we do want to do more is with regard to our IT systems, technology systems. And we have plans to do just that.

Feedback from the client survey told us that our online wealth account service needed updating. So we've put some investment into that area, and the new system is now up and running, and initial feedback very positive. So the wealth account online.

And shareholders told us that we could also improve our online information for them. And I'm pleased to say that we've responded to that too, with the introduction of a new iPad app, specifically designed for you, all shareholders and potential shareholders. And that can be downloaded from today from the iTunes store. And it really is a good piece of kit, and very descriptive.

Our partners want more online support too, which is why we've revamped our intranet; implemented an electronic business submission process; and are developing further bespoke iPad apps for them.

We are, and will continue to invest, in our back office and IT infrastructure, upgrading our administration platform, in conjunction with our third-party administrators, and taking advantage of today's technology.

We're also keeping a close eye on what our clients want in this area as well. For now, all of that survey research that we received tells us that the vast majority of them don't do Facebook, they don't do Twitter, and they don't play in most of the other social media sites in any volume.

So for now, we will stick with good old fashioned face-to-face approach, and hard copy wealth accounts for the majority of our clients which is just the way our President likes it as well.

And finally, a few words on the investment performance. You will have seen this slide on a number of occasions. It demonstrates, quite clearly, the breadth of our fund managers' selection and the global reach of our research teams, and of our Investment Committee and Stamford Associates.

The changes we announced late last year have, this month, been implemented, and the new managers are now in place. Hamish Douglass at Magellan, based in Sydney, Australia, has now assumed responsibility for our newly named international equity fund.

And the team at EdgePoint Investment Managers, based in Toronto, have assumed responsibility for the part of the global equity fund that they're running which, in turn, is part of the core satellite approach we introduced in 2011.

Broadening the experience of the investment committee has also been on our agenda. And we were delighted, at the end of the year, to appoint Win Robbins. Win's substantial experience in fixed income markets will be a great asset to the committee, and our business.

Such changes are now business as usual for us. There are no sacred cows. And we will continue to make whatever changes we believe are in the best interests of our clients.

Clearly, what matters most to clients is how their funds perform. It's a significant aspect of how they judge value for money.

One way of illustrating how we're doing is by comparison to each fund's peer group. And we maintain these comparisons for each of the traditional periods of one year, three year, five year and 10 years.

Let me show you a couple. Here we see the five-year chart, showing our rolling five-year fund performance results for the last 10 -- five-year periods. So for example, this tells us that for the five-year period ending December 2012, that's on the far left-hand side, 88% of our client funds were above their peer group average.

For the five years ending 2011, the next column in, 72%. And so on.

The next slide is the 10-year picture, which shows an even stronger position, with over 80% of client funds above the peer group average in almost every 10-year period since inception.

And finally, on performance, you may remember that we launched our new model portfolios in 2011. And today, around 50% of new client investment is finding its way into those portfolios.

Whilst it's early days, I thought you might like to see how they performed in 2012. Relative to the markets, I'd say pretty much as you would have expected, given each individual portfolio's risk profile.

Our funds under management have grown substantially in recent years. And we're confident that our investment proposition has the capacity and scalability to ensure that such growth is sustainable in the years ahead.

As I said at the start, we have an absolute focus on our business model, on the development and the growth of the Partnership, and our investment proposition for clients.

And we have really good momentum in all of the key measures, and in particular, in the growth of the funds under management. Ultimately, that's what drives our revenue and return to shareholders, both in terms of the share price, and the progressive growth in dividend.

Let me end on that point. And I'll ask my colleagues to come and join us at the front here. So Andy back up; David Lamb and Ian Gascoigne, our two Managing Directors. And we'll then take any questions you have. And I'll stay here.

Questions And Answers

A - David Bellamy {BIO 14025555 <GO>}

If you can put your hand up when you've got a question, the microphone will come over. If you can say your name so that everybody knows who you are, not least me. And we can take it from there.

So James? Thank you.

Q - James Pearce {BIO 16758460 <GO>}

James Pearce, UBS. A couple of questions. First of all, you've got small positive experience variances, but negative assumption changes. Why are you strengthening, when you've got apparently favorable experience?

Second, what assumptions are behind your -- is it commitment, aspiration to grow the dividend by another 30% in 2013? What market outturn is behind that ambition? And what other things could cause you to change that, when you actually (multiple speakers).

A - David Bellamy {BIO 14025555 <GO>}

That's probably best answered, first instance anyway, by Andy. So I'll let (multiple speakers) the outcomes and I'll come back to (multiple speakers).

Q - James Pearce {BIO 16758460 <GO>}

I've got another one as well, actually.

A - Andy Croft {BIO 5711239 <GO>}

Do you want to do your third one as well?

A - David Bellamy {BIO 14025555 <GO>}

You've got a third one?

Q - James Pearce {BIO 16758460 <GO>}

Yes. Could you comment on your majority shareholder, and how you expect that to develop

A - David Bellamy {BIO 14025555 <GO>}

No news on that. So we can kill that one quite quickly. No changes. And I'll let Andy talk about the two financial questions, James.

A - Andy Croft {BIO 5711239 <GO>}

Okay. If we do the positive experience variance, and operating assumption changes.

Clearly, there are a lot of assumptions underlying the embedded value. So I think what you can read into it is that there were some negative experience variances on some, where we felt we needed to tighten up the operating assumption. But they were more than compensated by positive experience variances on the other, where we don't feel it is appropriate to loosen the assumption, if that's the right expression.

On the dividend; first of all, we have reasonably defensive cash flows, because we have the business from six years ago that will mature out of that gestation period I mentioned.

And secondly, if you recall, we've also been building a cash reserve on the balance sheet, which we aim to get to equal to one year's worth of dividend. So that if the market was to take a dramatic fall, then we can tap into that reserve.

That reserve, as at the end of the year, was GBP45 million. The full-year dividend cost in 2012 is about GBP53 million.

A - David Bellamy {BIO 14025555 <GO>}

Thanks, James.

Q - Colin Simpson {BIO 15894636 <GO>}

Colin Simpson, Goldman Sachs. Just two questions please. Your message about acquiring IFAs seem to be a bit more prominent this results season. I wonder whether we're going to see a step up in that, particularly with RDR.

And we've had -- in the past, there's been quite a bit of bad publicity when firms have taken over other IFA firms. The re-reg process has taken a bit longer; customers have been a bit unhappy about the products that they've been shipped into. What sort of assurance can you give us that we're not going to see an uptick in complaints from customers who used to be -- who have seen their wealth moved over to SJP?

And the second question is, your cash flow is now becoming very predictable, so it seems as you've got scale and establishment expenses are a small proportion of your total. Is there anything you can do around the capital to maybe reduce some of the -- well, make it a bit more efficient, put some long-term debt in there, and give shareholders a special dividend?

A - David Bellamy {BIO 14025555 <GO>}

Ian, do you want to pick up on the IFA acquisitions point first?

A - Ian Gascoigne {BIO 4439479 <GO>}

I think it's fair to say this is a new venture for us. We've -- it's a pilot. We've acquired four good businesses. The important thing, in terms of acquisition, is there still has to be a cultural fit, and the businesses still have to want to join SJP. Although it's an acquisition, we don't proceed unless we feel it's right for them and right for us.

A lot of companies seem to make the mistake of being acquisition in terms of buying businesses but not buying the hearts and minds of the business. So the cultural fit is incredibly important.

And so the deals we've done, we've walked away from three times as many deals, because they weren't right culturally.

In terms of the second element, I don't foresee the -- I don't see the problems you envisage because of the way we've structured the deals, and the way we've done our due diligence to the businesses, their financials, and the people in the business. So I'm quite reassured in that respect.

A - David Bellamy {BIO 14025555 <GO>}

Yes. Thanks, Ian. I think there's -- Colin, I think the sense that is this a shift, is it more prominent. It was largely just to bring you up to date with -- there was an opportunity, which is -- the catalyst of which was around RDR, I guess.

But as Ian said, it was important for people to come and join us, rather -- but we weren't buying people who were then going off the leaders of the business. This was a complete team that came. Most of these conversations happened over several months before we acquired.

But my own sense in the post-RDR world is that this was a bit of a one-off opportunity, and that it will be normal business, in terms of acquisition of IFAs, and wherever advisors are sourced from going forward.

I think on the capital point, Andy, can you make better use of the money?

A - Andy Croft {BIO 5711239 <GO>}

I hear what you say. I don't think we're at that stage yet. And I think one of the advantages we've had over the last five years is actually not having a balance sheet loaded with debt. And yes, the absolute capital levels are still -- they're growing nicely, but they're still not massive, compared to say the embedded value. So we're not in those discussions.

A - David Bellamy {BIO 14025555 <GO>}

We've now got a couple -- yes, so Blair over here, and one over here.

Q - Blair Stewart {BIO 4191309 <GO>}

Blair Stewart, Bank of America Merrill Lynch. Two or three questions. Firstly, on the costs. You've talked about a little bit more infrastructure spend. I think you had the pickup in development and regulatory expenses in '12. Just a bit more outlook on that, please, if possible.

In terms of market conditions in the first couple of months of the year. Are you seeing any significant change, or any noise or disruption in the market? It seems pretty quiet from the outside.

And thirdly, you talked about half of new money going into the St. James' portfolio. Is there any difference to you in terms of margin on that business, or is it just the same? Thank you.

A - David Bellamy {BIO 14025555 <GO>}

Okay. Let me talk about the portfolios first. I'll just pick that one up quickly, because no, there isn't. What portfolios do is that they are balanced with different asset classes and fund managers within the normal wrappers. So we are very cost neutral, profit neutral, return neutral on those portfolios.

What's good for us is that people are diversifying and spreading their investments, whether they're inside one of our modern portfolios, or in a portfolio that they've built with the partner that advises them. That's what's important for us. So we're really pleased with that.

In terms of the cost, which is the regulator and development, David, do you want to pick that up, because it's largely I think in your piece, in your world?

A - David Lamb {BIO 15016583 <GO>}

Realistically, it's a bit like a one-off, because of the (inaudible) RDR. So in the last two or three years, we've been doing an awful lot of work supporting the Partnership, getting 2,000 people qualified (inaudible).

And that's incurred a lot of activity in training teams, development teams, the workshops all that sort of stuff. So you won't see that going forward in terms of the same size and shape, going forward.

We will support people trying to get to Chartered. It's a different [ph] type of journey and hasn't got the same type of time pressures on it. So we'll do that, almost business as usual in terms of where we develop the business going forward from there.

Q - Blair Stewart {BIO 4191309 <GO>}

Very much cost reduced (inaudible).

A - David Lamb {BIO 15016583 <GO>}

I think it's within our current training budget. It's not an extra cost at all.

A - Andy Croft {BIO 5711239 <GO>}

There is some -- the other development cost is the broadening of that investment range that David showed on the slide. There is some tail costs there in 2013. The number is in the financial commentary, Blair, and I think it's probably about GBP5 million. But I'd need to dig in and have a look. And I'll have a look whilst someone answers the next question.

A - David Bellamy {BIO 14025555 <GO>}

I think in terms of markets this year, it's too early, Blair. We've made a fairly confident and positive statement about our own sightlines, and some of that is informed by the momentum; all those positive things that I said in my presentation. We go into the year with more than 8% more partners. We go into the year with 3% extra retirees at the back end of last year which I'm going to retire this year. So we'll have fewer leavers from the partnership, and strong momentum in the recruitment as a sort of hangover almost from the end of the year.

So we're feeling pretty good about the various key drivers of our business. There's a bit more positive investor sentiment around. It began to pick up from September, October onwards. And people recognize that those economies are going to take time to recover. The debt levels are going to be where they are. The interest rates are going to stay low. The tax burden's going to carry on. And you put your money to work because interest rates are not going anywhere.

So there are a lot of things in our world that feel pretty positive frankly. And the infrastructure and the scale of the partnership, and the depth of the investment proposition, I think, bode well for that momentum. Hence us talking about we can see no reason why we can't grow our business along with our medium-term objective which we have stated on numerous occasions, 15% to 20% growth per annum.

A - Andy Croft {BIO 5711239 <GO>}

The expense numbers were GBP10.3 million in 2012, and the expectation of GBP5.3 million in 2013. Not quite sure why I've been so accurate on GBP5.3 million, but you get the drift.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Ashik Musaddi, JPMorgan. A couple of questions on Partnership. Now you have given two numbers, like one is your number of partners, 1,788; and one is the number of advisors, the 2,000. In terms of 5% to 6% growth target, should we expect that growth on both the numbers? Or will there be some shift from the advisor into Partnership? How should we think about that? Number one.

Secondly, on productivity of the new IFAs, can you give us some color about the productivity of new IFAs that you have taken over the last one year to two years? And how does it compare to your mix previously, before that? Thank you.

A - Ian Gascoigne {BIO 4439479 <GO>}

It's a good question. Because for some time we've always reported the number of, what we call, the Partnership, the partners. But below those partners, there are often one or two advisors working within a practice, and some of these businesses are substantially larger than that.

So we have a secondary distribution of sales advisors, although we only report the Partnership numbers. So 1,778 (sic) is the number of individual businesses that SJP had last year. And we're confident of growing that number in line with our previous experience over the last four or five years going forward.

The RDRs, we're at a crux of do we report the number of regulated individuals, or the number of qualified advisors. In which case, the number is higher than 2,000. And I don't have the exact number on me today but it is higher than 2,000. So we would expect to grow both populations at roughly the same rate going forward.

The four businesses that David showed earlier accounts for four on the Partnership headcount, probably 40 on the qualified advisor headcount. So it gives you some idea of the scale of the subset of the businesses. At the moment, we will continue to report the Partnership numbers, the numbers of businesses. And maybe we'll choose, in the future, to give more detail on the total number of qualified advisors.

The second part of the question about the productivity of the new IFA joiners, we're more than happy with the productivity of new joiners. A lot of high-quality IFAs have joined us, and have continued writing business at the levels that we anticipate them to. So we're not disappointed at all.

Q - Barrie Cornes {BIO 2389115 <GO>}

Barrie Cornes, Panmure Gordon. A couple of questions, just following on from that Partnership number. If traditionally you've been looking to grow 5% to 6% and I think the Academy might be putting out maybe 20%, 25%, I think you said, in terms of new numbers. Should the underlying figure -- is that going down? Or should we focus the attention on number plus the 20%, 25%?

A - Ian Gascoigne {BIO 4439479 <GO>}

No. I think the Academy is about the future, Barrie. And I think if you look at our net manpower growth, our objective is in the region of 130, 140. When we talk about 25%, it's 25% of that number. So not 25% of our gross recruitment. So it's 25% of our net manpower number. I think it's an aspiration for us that one-quarter of our net manpower will come from people we have -- second careerists who we've trained, developed and become functional members of the Partnership.

And this is something for three, five, seven years ahead really, rather than the issues of today. Today, we don't really need an Academy contribution to our net manpower growth. But in five years' time, we suspect it might be more important.

Q - Barrie Cornes {BIO 2389115 <GO>}

Okay. Thank you. And the other question I had was in respect of margins. I guess, post RDR, with increased transparency, do you think you're likely to see any pressure on charging?

A - David Bellamy {BIO 14025555 <GO>}

David, do you want to take that. You might want to move your mic in a bit, David.

A - David Lamb {BIO 15016583 <GO>}

I guess it's early days in terms of what type of pressures might emerge in the post-RDR world. We're not seeing evidence right now of it. I think if you look at the fragmentation points that we've discussed openly in the past, and David talked about earlier on, the fragmentation in the marketplace has led to an overall increase in costs for clients across the market generally, which I don't think is understood very well in terms of the retail market space.

So margin pressure as such isn't arising as of today. But it is very early days. And I don't know that you can say for sure you won't see margin pressure coming through in the future. Instinctively, I think, you'll see a lot of changes in the business models out there as RDR settles down. The whole thing about platforms plays out. You'll see different shapes in distribution come and go. And I think, therefore, margins will be part of that mix. It won't be the only thing that's going on. But we haven't seen any evidence of it so far.

Q - Barrie Cornes {BIO 2389115 <GO>}

Thank you.

A - David Bellamy {BIO 14025555 <GO>}

Back to James.

Q - James Pearce {BIO 16758460 <GO>}

Can I just come back to this thing with the IFAs. I'm not entirely clear. Are you acquiring IFAs or are you recruiting them? If you are acquiring them, I can't see any goodwill or acquisition detail in the accounts. Can you just clarify that please?

A - David Bellamy {BIO 14025555 <GO>}

The four that I put up in my presentation we acquired. The rest are normal recruitment process. And that was the one-off opportunity.

Q - James Pearce {BIO 16758460 <GO>}

So what was the cost? And what were the net assets acquired?

A - Andy Croft {BIO 5711239 <GO>}

GBP10 million maximum, James. But it's payable over two installments. So if you go into the depth of the accounts, you will see some small amount of goodwill and things like that. But it's not a large number.

A - David Bellamy {BIO 14025555 <GO>}

Thanks, Andy.

Q - Alan Devlin {BIO 5936254 <GO>}

Alan Devlin, Barclays. Just a question on your dividend. I think your payout ratio was about 60% of your cash earnings this year. And given the guidance, that might increase to 70%

next year. For a company like St. James, what cash payout can we expect? Can St. James payout either 90% of cash earnings given you seem capital light? How should we think about that?

A - Andy Croft {BIO 5711239 <GO>}

Two things, Alan. A, as I've just said earlier, we're building this dividend reserve. So we need to put another GBP15 million to GBP20 million on that dividend reserve to catch up what may be the 2013 dividend. If you went back to 2006, 2007, our payout ratio was round about 75%. So that might be a good proxy to look at. We won't hold on to cash unnecessarily.

Q - Marcus Barnard {BIO 2103471 <GO>}

Marcus Barnard, Oriel Securities. Firstly, on your total cost ratios and reduction in yields, I know you've done some work on this internally. But as a general comment, anything you could share with us I'm sure would be very useful, or if you've got anything else to say.

A - David Bellamy {BIO 14025555 <GO>}

Reduction in yield type.

Q - Marcus Barnard {BIO 2103471 <GO>}

Well I think you put some slides up at your annual meeting comparing the costs of various advisory distribution channels; that would be very helpful.

A - David Bellamy {BIO 14025555 <GO>}

On just how competitive we were?

Q - Marcus Barnard {BIO 2103471 <GO>}

Yes.

A - David Bellamy {BIO 14025555 <GO>}

Okay. And what's the -- sorry, Marcus --

Q - Marcus Barnard {BIO 2103471 <GO>}

It's just a general comment.

A - David Bellamy {BIO 14025555 <GO>}

Just to talk a little bit about that, yes? Yes, so, David, that was part of his presentation at the ACM [ph].

A - David Lamb {BIO 15016583 <GO>}

What we've shown is, and what we've shown in the book that we've made available for partners to use with clients is the range of total costs exist in the marketplace today. And that range is between 3.4% per annum to about 2% per annum across a broad spectrum of platforms; do it yourself, IFAs, banks, networks and St James's Place.

And we sit at 2.4% on a like-for-like comparison in that range. And there's only, actually, one or two that sit below us in the example that we use, which is a very generic example, GBP100,000 invested in a spread of unit trusts across the marketplace.

What is interesting about the whole RIYs [ph] is how, it comes back to the margins point, how transparent is the industry in a fragmented -- when the models are fragmented? And that's one of the points we've been trying to get across consistently, which is if you focus on total costs and the value of the proposition, we're very comfortable with where we are in the marketplace today.

Now that's not to say that in a market that's changing rapidly, that you won't see change happen in the broader word. But we're very comfortable. We understand where we are. We understand what our market's doing and how our RIY sits in that framework.

A - David Bellamy {BIO 14025555 <GO>}

I think that that's becoming clear, as well, that point about fragmentation. For us, a really, really big point. I know genuinely, I'm sure, an unintended consequence of what's gone on with the regulation but that fragmentation of costs, John Kay wrote about it just earlier this week, exactly the same point that it's going to be very hard.

And I think, as David said earlier on, until the platform rebate point plays out as well, I don't think we're going to get a clear sight through to how charges compare.

Then, of course, you've got the complication of HMRC's interpretation of some of these things, when -- what are rebates and what are client costs that make life a little bit more complicated for people as well. So we're probably a way away from getting real clarity in this space but we are very, very clear from all the work we've done. And we've used external organizations, two external firms I think, to play through some of these numbers for us. And as I said earlier on, I know a little bit tongue in cheek in terms of what we do, but we are competitive. We're in the right ballpark.

Blair?

Q - Blair Stewart {BIO 4191309 <GO>}

Just two quick follow ups. Have you seen any change in the average composition of your network over the last year in terms of how much they're taking home?

And secondly, have you noticed any difference or would you expect any change in the cost of asset management services that are provided to you over the next year or so? Are you able to squeeze the asset managers any further in other words?

A - David Bellamy {BIO 14025555 <GO>}

Yes. On the first -- he's looking at me because he's worried about what I'm going to say .

On the first point, and Ian can come in on this as well, the networks; if I look at the wider marketplace, I think what we saw running up to RDR was a migration towards bigger trail fees generally, I think. There was almost a shift through 2011 and 2012, as people began to anticipate the platform world and get people onto platforms and ongoing advisor charges were set at around -- we were surprised, 75 basis points/100 basis points as being the norm. So again, one of the ironies of the regulation it's drifted some of the charges, the clients are going to see, upwards.

Interestingly enough, I've seen some articles that talk about in order to compensate for that, for the total cost, IFAs are going out and looking for passive funds that come in on a very cheap asset management cost, in order to make it not look quite so oppressive for the client. So they're just redistributing the cake.

In terms of asset management generally, fund management charges, we have the benefit of scale. We have -- we can negotiate with our fund managers fund charges that are, effectively, wholesale rates that we pass straight through to retail clients.

We do not rebate. We take no rebate from the fund managers. What we negotiate with the fund managers washes straight through to the cost of the proposition to the client. But it is a vertically integrated cost, which is what we are at pains to point out. Do either of you guys want to add?

A - Ian Gascoigne {BIO 4439479 <GO>}

The only thing I would say was that it's fair to say that for the Partnership, the partners' running costs of their business, their own individual costs have probably increased as a percentage of their new business, just because of regulation, support, high-end needs for client services (inaudible). So the businesses have got infrastructure than, say, 10 years ago, so that their own running costs have increased.

A - David Bellamy {BIO 14025555 <GO>}

Yes. Whereas we've not -- sorry, I didn't comment on ours, you're absolutely right, Ian. On our own distribution, on the Partnership, if anything, they've seen their remuneration come down as we moved our bond, initial advice fee, as you would call it today, down from 3.6% to 3% over two years. That landed last year in its full effect and everything else is pretty much as it was before.

David, do you want to talk about the fund managers, or have I said enough?

A - David Lamb {BIO 15016583 <GO>}

Well I think -- it's a different question .

With the fund managers, David's absolutely right in terms of scale but there's two other really important points people miss, I think quite often, which is persistency. Our funds are unbelievably sticky. This 95% retention rate is absolutely valuable for a retail and fund manager trying to get distribution.

And secondly, cash flow; if you look at the GBP5.9 billion gross fund inflows last year, we can talk to the fund managers about aspects of their business, which they don't normally get any say over when they're dealing with the retail market, which is cash flow and persistency.

So it puts us in a very strong position in terms of our ability to sit down around a globe of managers and talk about what we can bring to the table in return to what we want from them, which gives results and performance.

A - David Bellamy {BIO 14025555 <GO>}

Yes. It's good.

Q - Paul De'Ath

Paul De'Ath, RBC. Just one quick question on competition. We're seeing one of your competitors in the manufacturing space expanding their wealth management operations recently. I wonder on your views of whether or not we're going to see more vertically integrated firms coming into the market? And if you see if that as competition for your model?

A - David Bellamy {BIO 14025555 <GO>}

It's very early days in terms of what their strategy is. You're talking about the Company that's just acquired the asset management firm. It doesn't feel right to mention other companies' names up here, actually, so I'm trying to avoid that.

Anyway, it's too early to say I think. One of the things that we were very clear on, as we headed towards the RDR piece was that strategies were changing. And we worked with Ned Cazalet and he did a piece of work for us, which did look into the marketplace and he made that very observation.

Lots and lots -- are the people going to be building their own distribution to recreate something like the St James's Place vertically integrated model? Or are people going to be spending money in terms of platform direct to consumer type propositions, in order to match the other big business that's doing quite well in that space? And I guess, that's the big question mark. We will see that play out in the next year or two or three.

It's taken us 21 years to get to where we are to build this distribution, to build the proposition. I don't want to sound complacent but I don't see any of these short-terms moves as becoming a threat to St James's Place or major competition in the short term.

We need to say very focused on our business. That's what we do. We have not changed our strategy since we started. Fundamentally, this is what we do and this is what we'll carry on doing.

So whatever they do out there, whatever which way the wind blows, we'll deal with it as it comes, but it's a little bit too early, I think, to judge whether it's going to be a threat or competitive to us.

Shall we have one more question then, because it's just around on the spot of the noon. If there's one more, then we'll close it down.

Okay, let's call it a day. Thank you very much for your time. Thank you, to my colleagues and answering all the difficult questions. And see you next time. Thank you.