S1 2013 Earnings Call

Company Participants

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

Other Participants

- Alan Devlin, Analyst
- Andrew Sinclair, Analyst
- Ashik Musaddi, Analyst
- Barrie Cornes, Analyst
- Blair Stewart, Analyst
- David McCann, Analyst
- Jon Hocking, Analyst
- Kirin Singh, Analyst
- Oliver Steel, Analyst
- Paul De'Ath, Analyst
- Unidentified Participant, Analyst

Presentation

David Bellamy {BIO 14025555 <GO>}

Good morning everyone. Welcome to our results presentation. Thank you, all for coming.

As usual, there are three parts to today's presentation. Firstly, the resume of our new business results, revisiting the results we released a month ago and focusing on the growth and performance of the partnership.

Secondly, an in-depth review of our financial performance in 2013 covering profits, cash flow and dividends in some detail.

And finally, as this is such an important time in the development of the business, I'm going to spend some time looking at some of the moving parts and why we think we're well positioned to write the next chapter of St. James's Place.

I'll address the first part now, as usual, hand over to Andy to cover the financials, and then return to talk about the broader developments.

So let me start with a resume of our new business results for last year. 2013 was a very good year for the business. Investment markets were generally positive, market sentiment much improved and we, like a number of businesses, saw strong inflows and growth in funds under management.

I said in my comments accompanying the results that there is a reassuring consistency about our business. And this has been demonstrated by the growth in our new single investments over the last five years.

This chart shows the trend with new single investments five years ago standing at GBP3.5 billion and rising steadily each year to the GBP7.2 billion last year; growth of 22% over 2012, and double what they were five years ago.

One of the attractions of last year's new investments was the fairly even balance across each of our three product, or investment wrappers, as I call them, of bonds, pensions and unit trust ISAs, as shown by this chart.

While the growth in pensions business has slowed somewhat, that's the blue bar at the bottom, that's been more than compensated for by the growth in unit trusts and ISA investments.

The consistent growth in gross inflows in new business, though, is only part of the story. Strong and consistent retention is also a hallmark of our business, and this chart demonstrates that.

Underlying year-on-year retention of existing funds under management of around 95% per annum, delivered by building long-term relationships with our clients and serving them well. In turn, that's enabled us to report excellent growth in our net inflows, growing last year by 28% to GBP4.3 billion.

Those two factors of inflow and retention, when combined with the positive performance of the existing funds, enabled us to report growth of 27%, up GBP9.2 billion in our total funds under management, to the GBP44.3 billion we announced at the of 2003.

Partner numbers have also seen some growth in recent years, culminating in a further near 10% growth in 2013. The partnership now stands at 1,958, up 46% on the position five years ago.

And whilst recent years' growth has been very strong. As I said at the interim meeting, we fully expect this to return to more normal levels of between 5% and 7% growth per annum as we saw in the second half of last year.

Similar growth, though, has been achieved in respect of partner productivity. That's up 12% in 2013, and up over 50% over the last five years.

As I said earlier, there's a reassuring consistency about the business, and that consistency was clearly demonstrated in 2013 with those new single investments up 22%, net inflows up 28%, and GBP9.2 billion growth in funds under management, up 27% to the GBP44.3 billion. And those factors complemented by growth in the size and productivity of the partnership, up 9.5% and 12% respectively.

So that's it in terms of the resume of the 2013 figures. Let me now hand over to Andy, and he'll explain how that performance contributes to our financial results for 2013. Andy.

Andy Croft {BIO 5711239 <GO>}

Thank you, David, and morning, everyone.

In addition to the performance that David's just covered, there've been a number of other events which have impacted the results during the year. And consequently, I'm afraid my talk's a little bit more complex than normal, but hopefully, this will help with your models, going forward.

So to look at those other events. Firstly, we signed a new reinsurance treaty which removed some historic mortality and morbidity risk and provided for positive impact on both the IFRS and cash result.

Secondly, we placed a value on some old capital losses in the Group, which we now regard as being capable of utilization over the medium term. This had has a one-off benefit in the EEV and IFRS result in the year.

It should be noted that, in the second half of the year, further work has resulted in a small refinement and, therefore, a reduction in this estimated benefit.

And thirdly, the introduction of the new regulatory rules on advisor charging changed the number of cash flows, and also caused the loss of tax relief we previously obtained on the advisor charge.

Now as I cover each of the EEV, cash and IFRS results, I will highlight how these events have impacted the current year and what they mean for future years.

So let's start with the EEV result, and the current slide gives the usual analysis. The new business contribution, at GBP327.2 million, was 18% higher than 2012. And there are a number of key drivers to this result.

Firstly, the strong new business growth and actually, the even stronger manufactured new business growth. Going forward, we will be placing more emphasis on our own manufactured business, and furthermore, as our principal source of income is annual management fees, we will also be talking more in the future about net and gross inflows.

Another driver to the new business contribution is the establishment expenses. Then finally, the introduction of the new regulatory rules on advisor charging has resulted in the loss of the tax relief on the advisor charge, since it is now a cost to the client, and not SJP.

The capitalized impact of this lost tax relief has had a negative impact on the new business contribution of some GBP20 million to GBP25 million.

Now returning to the analysis of the EEV result, the unwind for the year was GBP112 million which, together with the strong experience variance, operating assumption changes and investment income, gives a total life and unit trust pre-tax profit of GBP496.5 million.

The strong positive experience variance principally reflects the GBP28.6 million value placed on those old capital losses, together with the continued strong retention of our business, particularly single premium pensions business. This strong positive experience variance, year on year, should give you comfort over the assumptions that we use in the calculation of the embedded value.

The distribution company made a small loss of GBP6.1 million, reflecting the higher expenses in 2013 associated with the strong increase in partner numbers. The benefit of this expenditure will be seen in future years.

Other operations contributed a loss of GBP27.7 million, and this included the cost of expensing share options and the costs in relation to the LBG placing on March 2013.

The total operating profit for the year was up 26% to GBP462.7 million. And taking into account the significant positive investment variance and the positive economic assumption change, total EEV profit before tax was GBP817.5 million, providing for an EEV net asset value per share of 575.3p, an increase of 25%.

So a strong result across all the EEV measures.

Now moving on to cash result. But before looking at the performance for the year, just a few comments on how those three key items I referred to at the start have affected the cash result.

The reinsurance treaty capitalized the expected future margins and provided a one-off positive of GBP18.3 million. But obviously, these profits will no longer emerge in the future.

The capital losses, when utilized, will increase the cash profit through a lower tax cost, and we expect this to occur over a five; to six-year period.

As noted in the EEV result, the capitalized impact from the loss of tax relief was a lower new business contribution of some GBP20 million to GBP25 million. This loss margin will be reflected in the cash result over a seven-year period at some GBP3 million to GBP4 million. Future years will also reflect the loss of tax relief on that year's advisor charges.

Moving on to actually look at the cash result, the current slide shows the total cash for the year at GBP168.8 million, some 84% higher than 2012. In addition to the GBP18.3 million receipt from the reinsurance treaty, there were a number of other positive and negative variances, giving a net positive of GBP10.6 million.

This leaves the underlying cash result at GBP139.9 million for the year and some 67% higher than 2012. Now this is the important figure, as it is the underlying cash result that the Board takes into consideration when setting the dividend.

Looking now at how this cash result was made up, you'll see that the cash arising from the in-force business, at GBP188.2 million, was 30% higher than last year, with the majority of the return relating to the net income from funds under management. As previously highlighted, a large proportion of new business does not generate a meaningful cash return during its first six years, but will do so from the seventh year.

The current slide shows this new business written over the last six years not yet just generating income, and you will note this amounts to some GBP13.2 billion.

If all this business reaches its seventh year, there will be an additional annual cash contribution of some GBP102 million. So put simply, we can expect future growth in the cash result from the existing funds under management.

The second part of the cash result is the cost of investment in acquiring funds and, during the year, that was GBP48.3 million in 2013, compared with GBP60.5 million last year. You can see that this cost of investment has fallen and is essentially the net of two figures.

Firstly, the income received from the new business during the year, which has increased significantly from GBP24.8 million for the year to GBP48.9 million. Now this increase has arisen due to the acceleration of cash following those new advisor charging rules. This is because we are now required to recognize the surrender penalty on all pensions business, thus removing an element of new business strain previously reported.

However, again very importantly, all pension business will now have an unwind of surrender penalty cost in their first six years, increasing this outflow in future years.

The second part of the equation is the cost of acquiring a new business which, in the current year, was GBP97.2 million, compared with GBP85.3 million in 2012.

Taking all those together, we provide some measures about the expected return from this expenditure, and a few of these are shown on the current slide. I hope you agree that they show a very strong return from the investment.

Moving now to the IFRS result and, again, firstly a few comments on how those three events have impacted the current year results and the outlook.

In contract to the positive cash impact of GBP18.3 million from the reinsurance transaction, the IFRS result only reflected the positive impact of GBP8.9 million. This is due to the IFRS approach having already recognized some of the value for future expected cash flows through the DAC asset.

Following this transaction, like the cash result, the protection business will no longer provide a contribution to the IFRS profit.

The capital losses have been reflected fully in the IFRS result through the establishment of a GBP27.9 million deferred tax asset. So there should be no further future impact on the IFRS result. As these capital losses are utilized and emerge as a positive in the cash result, the deferred tax asset will be reduced correspondingly.

The changes to the advisor charging rules have had a number of other impacts on the IFRS result. Since the advice-related cash flows are now a client's transaction, there is no longer a DAC or DIR associated with these cash flows. Consequently, the DAC and DIR adjustments on new business are much smaller.

Secondly, the tax relief on advisor charges was previously reflected as a deferred tax asset, which was then released as the tax relief was received in the cash result. Since there is no longer any tax relief available on advisor charge, there is no longer a deferred tax asset created. Consequently, like the EEV result, the loss of tax relief impacts the IFRS in full each year.

So moving on to looking at the moving parts of the IFRS result, you will see that the current slide shows the usual presentation, starting with the cash position, which, as already covered, benefited from the acceleration of cash from the recognition of the surrender penalty on all pension business.

The amortization of PVIF, DAC and DIR are very much as expected and reflect the value and amortization profile of these items at the start of each year. Within the financial review, we have indicated the likely amortization charge for 2014.

The DAC and DIR on new business were both significantly lower than the prior year. This reflects the point made earlier that the cash flows associated with the advisor charge are no longer a cash flow of the Company.

It should also be noted that the combined position was a negative GBP17 million in the current year whereas, in the prior year, the two contributions more or less offset one another.

This is due to all the pension business now having a surrender penalty; in other words, there is more income to defer, and this partly offsets the additional margin arising on the new business that came through with the cash result. This will also be the situation in future years.

Finally, the deferred tax asset established for the capital losses was GBP27.9 million, as I said earlier, whilst other deferred tax effects were negative GBP13.3 million.

Historically, this figure included the establishment of a deferred tax asset on the year's tax relief expected from the advisor charge. In 2013, as already indicated, there is no advisor charge to establish a deferred tax asset and, consequently, the figure is some GBP10 million to GBP15 million lower than it would otherwise have been.

Other IFRS adjustments at GBP4.6 million were lower than the GBP8.1 million last year and include the cost of expensing share options, the impact of the reduction in corporation tax, and other miscellaneous items.

Taking all these together, the profit after tax for the year was, therefore, GBP190.3 million, up 78% over 2012.

As the tax charge for the year was more or less offset by the deferred tax assets, the pretax result for 2013 was at a similar level of GBP190.7 million, up 42% on the GBP134.6 million in 2012.

Finally on IFRS, the net asset value per share was 175.9p at the end of the year, compared with 150.4p last year.

Now a couple of comments on the capital position of the Group. We remain well capitalized and have a high level of solvency cover. The liquid assets remain prudently invested in terms of both credit and liquidity. As noted previously, the Group will not be adversely impacted by the new requirements from Solvency II and, indeed, we expect to see a reduction in the total capital we are required to hold.

So before finishing, that just leaves me to cover the dividend. At the half-year, we increased the interim dividend by 50% and indicated the full-year dividend would be increased by the same amount. I'm therefore pleased to say that the Board has resolved to increase the final dividend by 50% to 9.58p per share, giving a full-year dividend, also up 50%, of 15.96p.

This results in a full-year payout ratio of some 60%. Given our expectation of further ongoing growth in the cash emergence, we also announced today that we anticipate increasing the 2014 dividend by between 30% and 40%, and this is as we increase the payout ratio.

Before finishing, let's look at the five-year growth in EEV new business profit as this provides a good measure of the performance in each of the years and gives a guide to the future cash expectations from the business added.

So compound growth in new business profit of 21.5% over the last five years and, if we look at the five-year position on the underlying cash result, this shows an increasing cash emergence with compound growth of 42% over the last five years.

These charts demonstrate the business is achieving double-digit growth in new business, together with double-digit growth in cash emergence.

On that note, thank you for your attention, and I'll now hand you back to David.

David Bellamy {BIO 14025555 <GO>}

Thank you, Andrew. I hope you agree, a very strong set of numbers and further evidence of the continued and positive momentum in the business.

As I said earlier, 2013 has undoubtedly been a very significant year for St. James's Place. I think we'll look back on it as being one of the most defining years in our history.

Lloyd's finally released their holding, thus creating greater liquidity in the stock and that, together with the business results and supported by the positive investment markets, has seen a very significant increase in our share price over the last 12 months.

I'm particularly pleased that the investors who participated in all three placings during 2013 have seen very healthy gains since buying the stock, as shown on this graph.

One of the other consequences of the change in shareholding was some changes to our Board. Our two Lloyd's representatives stood down at the end of the year, as did Charles Gregson and Mike Power by way of rotation. The latter have effectively been replaced by Simon Jeffreys and Roger Yates, who both come with a wealth of experience relevant to our business.

We now have a very different new and almost youthful looking Board, okay, I'll stick with the new and different , led by Sarah Bates, our new Chairman who's here with us today. Sarah's been with us for some nine years, knows our business extremely well and we're all delighted to have her as Chairman. Welcome, Sarah.

2013 also saw us embark on the most significant development in our back office since launch. As I mentioned at the interim results presentation, that development comes in two phases. Phase one is now complete and that's the unification of our administration teams in Craigforth and Basildon. Both are now employed by IFDS and, consequently, under the same management and leadership, and very much focused on our business.

The second phase is underway as we speak. It involves the development of some new client-centric platform technology to sit across those administration centers. It's called Blue Door. It will eventually replace the product-based systems that exist today and will give us greater economies of scale.

We're delighted with the progress to date. There will be an 18-month implementation timetable which will begin later this year and, assuming all goes according to plan, will complete early in 2016.

Once completed, we will have unified the teams and the technology which will, in turn, deliver improved efficiencies for the business. It is probably our most significant systems development yet, and since our launch, and we believe it will be quite transformational in supporting the business and the service we deliver to our clients, and clients in this context are both partners and their clients.

Speaking of clients, most people would agree, I think, that to achieve a sustainable business, you need to focus on two things; that's acquiring clients and keeping them.

Datamonitor's 2013 report on the size of the market estimates that today there are over 9 million people with liquid assets in excess of GBP50,000 and who, between them, have in total GBP1.7 trillion of liquid assets.

So there would appear to be no shortage of people for us to attract as clients. Our experience tells us, though, that the most effective way of acquiring those new clients is by way of referrals and introductions from existing clients.

In recent years, approximately 90% of our business comes from those existing clients and referrals and introductions, so acquiring clients is important, but importantly, keeping them is much more so and that's what we focus on.

Again, we see clients in this context as both partners and their clients and, given their importance to the business, I'd like to share a few facts about both groups with you now.

Firstly, in respect of clients, there are over 400,000 of them and they're spread throughout the United Kingdom broadly in proportion to the UK population; 53% are male and 47% female and their average age is 53.

Now the trouble with averages is they are just that, averages. Our clients actually range in age from 22 to 102, and the clients with the most money invested with us are slightly older than the average, much as you would expect.

The same point about averages applies to the size of their investments with us. The average holding per client is GBP105,000. That's across all 420,000 clients. If we focus on those with just more than GBP50,000 invested with us, and that's around 200,000 people, that average increases to around GBP214,000 per client.

In practice, though, we have clients with GBP20,000 invested with us, with GBP200,000, with GBP2 million and, in some cases, over GBP10 million invested with us. So the average is just that; it's an average.

In terms of length of the relationship with them or with our clients, over 230,000 clients have been with us for more than five years and, within that, 150,000 have been with St. James's Place for over 10 years.

We've attracted 48,000 new clients in 2013 and a similar number in 2012 and, of those clients, those new clients, around half of them have invested under GBP50,000 with us. These are clients that are starting their relationship with us.

They will have come either from referrals, from existing clients, or from a partner who has recently joined us, and their initial investments are typically likely to be this year's ISA or pension contribution. As I said, clients who are, hopefully, just at the beginning of their relationship with us.

What's interesting, and clearly demonstrated by this next chart, is the opportunity that exists in these smaller and often newer client relationships. The pie chart on the left-hand side shows pretty much the 50/50 split between those with more than GBP50,000 and those with less than GBP50,000. The blue segment, 54% represents though who have less than GBP50,000 invested.

Contrast that with the chart on the right-hand side, which shows how much of our funds under management comes from each segment, and you'll see that over 90% of our GBP44.3 billion is in respect of those clients who have more than GBP50,000 invested with us. Less than 10%, the blue segment is in respect of the sub GBP50,000 group.

What that says is that we have a fantastic opportunity to build on the relationships we have, not only with the clients who have significant investments with us, but also those clients below GBP50,000 where, in many cases, that relationship has just begun.

Acquiring clients and keeping them is critical, as I said, to our success, and that's why we regularly ask our existing clients how we're doing. We do this in a number of ways. Firstly, for the last six years, we've employed the services of Ledbury Research and, each year, have asked them to carry out some independent research amongst our clients on our behalf.

They choose a sample of clients every year and interview them, and then compare the results with the control group they maintain which, effectively, comprises our competitors. This year's results are particularly encouraging, not perfect, but across the board improvements in overall satisfaction, service delivery, communications and significantly ahead of the market averages.

In addition to the Ledbury Research, we also give every client the opportunity to give us some feedback by enclosing with their wealth account each year a two page questionnaire for them to complete if they wish. Every client has that opportunity.

Thus far, from this year's mailing, we've had over or almost 40,000 replies with equally encouraging results. We ask them, amongst other questions, on a scale of 0 to 10 how they value the relationship they have with their partner, the strength of the Company, the investment management approach and the fact that we stand behind the advice.

About one-third of all the responses from this 40,000 scored 10 out of 10 across all of those measures, and the number scoring 8 or more out of 10 are represented on this chart. As you see, some very strong endorsements for the value delivered as perceived by our clients. And if we include the 7 out of 10 scores, the figures are even stronger.

But by far the most important question is the last one in the questionnaire that we sent out and that is, thinking of the overall St. James's Place proposition, would you recommend it to others? 96% of respondents have said yes to that question and without any reservations and, in fact, half of that 96% have already referred people to their partners. So some very encouraging results right now, clearly influenced by the market and investor sentiment, very encouraging relevant to our -- or relative to our peer groups too.

One of the major focuses of regulation today is on client outcomes and I hope these results demonstrate that's our major focus too. But I suspect the most important client outcome for a wealth management business like ours is how we manage clients' wealth.

You'll all be familiar with this map; it's the clearest picture for me of how important we view managing clients wealth. Sourcing some of the best fund managers from around the world to manage our clients' fund is one of the ways we ensure we do the best job we can.

Once we've selected them, we monitor them and, if necessary, change a manager either because of performance or, in some cases, through personnel changes, i.e., when a manager we selected chooses to move from a particular investment house.

The most recent example, of course, is Neil Woodford. Neil manages GBP4.5 billion of our clients' money and, during the last few months, our investment committee, guided by Stamford Associates, have been researching and exploring the options available to us, given his impending move.

They've met alternative managers, had lengthy discussions with Neil, got to know his successors and, having considered a number of options, are very close to confirming our proposed solution. That solution will be applied to all clients invested in our fund and, whilst we're not quite ready to confirm the details, we will begin that communication process in just a few weeks from now.

The key here, though, is that clients won't incur any cost whatever happens. They won't have any tax to pay as a result of being obliged to cash in their investment. And they'll have the comfort of knowing that we will have carried out extensive research and all the necessary due diligence, whatever action we take.

Quite what small IFAs and clients invested in the other GBP30 billion managed by Neil will do is anyone's guess. What I do know is that our investment approach is different; it's forward-looking and it adds value.

Of course, ultimately, fund performance matters too, and here's one of the usual charts we show, which shows the rolling 10-year performance of our funds for the last 10, 10-year periods. In all bar the last 10-year period, over 80% of client funds have outperformed their Group benchmarks. Ironically, it's largely Neil's performance in recent years that has impacted on the latest 10-year period; nevertheless, 70% of funds beating the peer group average is still a good result for our clients. So that's a little background on our clients and our investment performance.

Finally, I'd like to spend a few minutes on the partnership now. The St. James's Place partnership has grown substantially in recent years and we now have just under 2,000 partners, as I showed you earlier. They, too, are spread throughout the country in pretty much the same proportion as our clients. Their average age is 48, 88% are male and 12% female.

We retain 95% of them year on year. They're a very diverse group, we split them into three segments; sole traders, small businesses and large practices. And within those small businesses and large practices, we have a number of advisors who don't rank in our partner numbers. They are, though, fully qualified experienced advisors who, in many cases, could be partners in their own right. It's just that they've chosen to work in another practice, have been recruited as part of a small team from the IFA sector, or a part of a partner's succession plan, sometimes members of the family.

Whatever their origin, their number have grown too in recent years, such that we now have some 500 of them bringing the total of qualified advisors, including the partners, to over 2,500 at the end of 2013; a significant number in the advisor community and close to representing 10% of the entire market.

This next graph shows what's happening in the entire market and shows the total number of advisors in the industry, and you'll see reducing from 40,000 two years ago to 30,000 now. Having said that, it's leveled a little bit in the last 12 months. What this tells us is that it's shrinking, though, albeit not as quickly as some predicted, and it's something we'll have to bear in mind with regard to our medium-term growth objectives.

Part of our solution in that regard is to grow our own, so to speak, via the academy, and that's progressing nicely too. In addition to the 60 students who joined us last year, we expect to attract a further 60 students this year and, particularly so, as we expand beyond just London with the launch of our first regional academy, which will be based out of Manchester later this year.

We also expect the majority of our 2012 starters to graduate this year, either as partners in their own right or as advisors joining other practices. And we'll continue the development of our next generation cohorts; that's essentially the sons and daughters of existing partners, and we expect to see more growth in that aspect of this development too.

Alongside that initiative, you'll have heard at our annual meeting, and see in this morning's release, that we're close to completing our acquisition of the Henley Group. The Henley Group has a team of 50 advisors based in Singapore, Hong Kong and Shanghai. They currently advise approximately 4,000 expatriate clients and oversee around GBP400 million of funds under management.

For us, it's a very exciting development, sits comfortably with our relationship-based model, and we're very confident that our investment proposition will appeal to this market, both in terms of its pricing model and its breadth.

We're also confident about the market opportunity. We estimate that there are about 120,000 UK expatriates controlling about GBP12 billion of investable assets in these three jurisdictions. Henley, we think, has about 3% of that market and, with our proposition, believe that it has the ability to comfortably double its market share relatively quickly.

As to whether we take the proposition to the Middle East or broaden the offering will be determined by our experience over the next year or two, so we'll play it by ear very much.

That's pretty much it from me for now. I hope you've found the insights into our clients and the partnership of interest and helpful. As I said at the start, a very significant year for St. James's Place and for our shareholders, and one that we might look back on as being quite a defining one. Some great momentum in the business and some exciting developments and opportunities for the future.

Thank you for listening. I'd like to ask my colleagues now to come and join me on stage; in fact I'll stay here and handle the questions and we'll just get into our usual Q&A.

Questions And Answers

Q - Jon Hocking {BIO 2163183 <GO>}

Jon Hocking, Morgan Stanley. I've got two questions please. Firstly, on the payout ratio for the dividend, I think previously you've talked about a payout ratio of 60% to 70%. In the medium term, you're now signaling you're going to go beyond that and can you talk a little bit about where the payout ratio could go in the medium term, given the lack of capital requirements for the business?

Then secondly, the partner productivity for 2013 was very strong; can you comment a little bit about how durable that might be, what the drivers are there, is that something we can expect to see continuing?

A - David Bellamy {BIO 14025555 <GO>}

Well I'll involve my colleagues here, so you've got Ian Gascoigne on the far left-hand side, David Lamb in the middle, and Andy you know well. So Andy, do you want to take the dividend first, the payout?

A - Andy Croft {BIO 5711239 <GO>}

Yes, I think the easiest way to look at the dividend, if you went back to 2006/2007 then the payout ratio was in the 70%s, 75%/76%, and I think we'd feel comfortable getting to that sort of payout ratio.

A - David Bellamy {BIO 14025555 <GO>}

And Ian, do you want to pick up on the productivity?

A - Ian Gascoigne {BIO 4439479 <GO>}

Yes. To be fair, impacting on productivity can be a bit of a mystery in terms of how we work. Obviously, market conditions and confidence in the retail market really helps partners in terms of the natural productivity increase. Similarly, levels of training, incentivization, maturity of businesses are all part of the ingredients, but I don't think there's a magic formula that the business has, but I do know that the softening of the market, market sentiment, is probably the biggest driver.

It is a complex one. It's not a two minute question, but I'm confident that partner productivity will continue to show positive, unless there's a massive turnaround in the market conditions.

Q - Jon Hocking {BIO 2163183 <GO>}

I think, in the past, you've mentioned that the exam training for the RDR was a drag, do you think that was a big catch up effect in 2013 or?

A - Ian Gascoigne {BIO 4439479 <GO>}

I think potentially, there was a drag on performance due to the level of exam training. I think, post qualification, there's been an upside in terms of partner confidence and market conditions. I would agree with that, but there was definitely a drag during the RDR training period.

Q - Jon Hocking {BIO 2163183 <GO>}

Thanks, Ian. Thanks, John.

Q - Oliver Steel {BIO 6068696 <GO>}

Oliver Steel, Deutsche Bank. Three questions. First is, could you give us some sort of guidance on the cost of the new administration system? I think she said GBP5 million for last year and GBP10 million for the current year. But if it's not going to be ready until early 2016, then can we have a cost figure for 2015 as well?

And what are the implications for that in terms of future costs? Is there a -- at what point in terms of increasing funds under management would you find you actually make net savings from that extra investment? That's rather a long question one.

Question two is margins on Henley Group; going forwards, what should we expect?

And question three, just back to that partnership productivity thing, which I've never totally convinced about the number because, as you've shown in your own figures, the advisor numbers have gone up by a lot more than the partner numbers. And I'm just wondering whether partnership productivity is actually -- I mean isn't partnership productivity up partly just because you've just got an extra 500 advisors on top of it?

A - David Bellamy {BIO 14025555 <GO>}

No, let me take the productivity one guys [ph] on this one because what I said in my presentation was that our productivity numbers are up 50% over the five-year period; partnership numbers are up 46%. And the purpose for showing the advisor graph in the second half, the growth in that has been broadly the same.

So in terms of the trend of productivity, it's matching pretty much the trend in terms of partner numbers but it's not as a result of, if that makes some sense. So both are growing, and that is the growth model.

The growth model is partly driven by growth in number of partners, 5% to 7%, although we've outperformed that of late. And the other part of the growth model is in the productivity piece and much comes from -- but I agree with Ian that the productivity is less defined and less prescriptive in terms of each year. It is influenced by market sentiment, to a large extent, and the nature of the relationship our partners have with their clients.

Costs of development, Andy, do you want to just touch on that for a moment and then David can talk about margins and so on?

A - Andy Croft {BIO 5711239 <GO>}

Yes, so I think as I said at the interim, we've embarked on this venture, not just to gain efficiency savings, but it is to actually put the right system in place, a client-centric system for the future. That said, we've spent GBP5 million in the second half of this year; expect to spend GBP10 million in 2015. And I think a GBP5 million run rate per every six months wouldn't be an unreasonable number. We've also ring-fenced a reinsurance money to pay for this, and I know the two don't necessarily add up, compared to what I just said.

In terms of going forward, we expect to see benefits in a whole host of areas but, on the financial side, there will efficiency savings in a number of areas. And we expect the tariff we pay our outsource providers to come down, by double-digit type of numbers. Double-digit percentage compared to what we're paying now [ph] but yes.

A - David Bellamy {BIO 14025555 <GO>}

Same thing, actually, if you look at how much we pay. David, do you want to just talk about margins, going forward, and then maybe Ian between you just the Henley…

A - David Lamb {BIO 15016583 <GO>}

In terms of margins on Henley, we've looked very closely at the product proposition available to expats in the Far East and what they're priced at, and we're confident that about two things.

One is that our proposition, when we implement it with Henley, will be very competitive compared to current prices. But equally, we're be able to maintain our margins because there is sufficient gap and headroom between our pricing and the current market pricing out there. So in terms of margins, you should expect the margins to be very similar to the UK business.

Q - Paul De'Ath

Paul De'Ath, RBC. A couple of questions. Firstly, just on the UK pension business; you've obviously seen some good experience variances coming through on that. How much of that is down to clients staying with you into retirement and going into draw down rather than taking annuities? Because obviously been a lot of press of annuities in recent times and they're not very popular with customers.

And secondly, just to clarify on the academy point; obviously you're now expanding the academy into regional bases starting in Manchester. Was that all part of the grand plan for the academy at the start? Because I think you said before it was going to be around 25% of new partners coming from the academy. Is that still as part of that plan, or should we expect more to come from academy in the future now that it's expanding? Thanks.

A - David Bellamy {BIO 14025555 <GO>}

Right, well, let's take the academy first. I think pretty much all part of the plan, but the academy has stayed very focused around London for the last two years or so. It was always part of the plan that the academy we would be UK-based, as are partners. We need to supplement our recruitment activity, that 25% that you mentioned, all over the country, and so there's not a lot of point in staying overly-focused on London as being the center at which the academy happens.

Quite how it rolls out in terms of the regions is largely a practical issue for us in terms of location, and some of the other managerial things that go around it. But all part of the plan, and we stick with that 25% circa supplement our recruitment activity.

In terms of the pensions business, David, do you want to just touch on where we see things unfolding?

A - David Lamb {BIO 15016583 <GO>}

I guess a couple of points here, one is the trend to not annuitize, to go drawdown rather than take annuities, is something which is happening and it will continue to happen and grow. So clients will stay with, not just St. James's Place, but I think clients will stay with their pension funds rather than annuitize in the future. So a variety of reasons.

Pricing is certainly one of them, but also the suitability of the product for the clients' needs is another. And for us, that means two things. One is that we retain clients for longer, for sure. But secondly, there's a bigger market there for us to go at as well as the market matures, the drawdown market. So we see both things playing to our advantage, going forward, in terms of retaining funds and acquiring new funds and new clients.

A - David Bellamy {BIO 14025555 <GO>}

And just to add, in terms of the financial impacts there on the embedded value, we have not changed any of our long-term assumptions at this point in time.

Q - Unidentified Participant

Andy, Exane BNP Paribas. A couple of questions; I was kind of hoping somebody else might ask these, but never mind. The customer agreed remuneration that you have now, presumably people can turn that off if they want to. Has anyone actually done that?

And the second question is, when I top up my existing policy under the new rules, doesn't the whole policy move to customer agreed remuneration, rather than just the additional new business, as you're showing in the chart? So I was just wondering if what are you doing with top-ups basically. Are they being sold whole new policies to avoid having to turn over from the fund-based commission you're currently paying?

And the third quick question was about the OFT investigation into pension scheme charges; I notice Lloyds took GBP186 million EV [ph] hit to cover that off. I notice you haven't done anything similar. I know it's a different business, but could you comment please? Thank you.

A - David Bellamy {BIO 14025555 <GO>}

Interesting. Okay. David, do you want to talk about RDR charging and so on?

A - David Lamb {BIO 15016583 <GO>}

A tiny number, and I do mean a tiny number, of clients have asked to switch off their ongoing advisor charging since RDR stopped. And a number of those are individuals related to a partner, i.e., their spouse, their partner. And the reason they're doing that is because it's more tax efficient for the partner's earnings because of the ISA rebate, than it is to take the money out the other way round.

Real clients are not doing it as in the last few years [ph]. That relationship is on how well we've served the client as to whether that number changes or not.

In terms of the top-ups, the RDR rules are very clear on this. It's new business taken out from January 1, which is subject to the RDR customer agreed remuneration. So the top-ups are caught by that, but not the entire existing plan.

I can't remember the third point, sorry.

So the OFT in terms of the pensions charges, we have a number of different people and institutions talking about what pension charges should be for the future, the OFT, DWP, and the Pensions Minister. What we need is some clarity as to what they want to do between them. We have until 2015 now to see what that clarity ends up looking like. Then the market will work out what the right thing to do is for pricing in the pensions' market.

But most of the debate, so far, is focused around what the right price, without the advice added to the proposition, should be. So it's based on what the fund managers are charging and disclosing, and what the auto-enrolment employer sponsored scheme is. That is not the total cost of pensions in the marketplace, and won't be the total cost of pensions in the marketplace, going forward.

So I think the devil, as always, is in the detail. We're quite comfortable about the fact that we have always been competitive in the marketplace, and we'll continue to be in the future. Let's see what the future looks like when we get the details.

A - David Bellamy {BIO 14025555 <GO>}

Thanks, David.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Ashik Musaddi, JPMorgan. A couple of questions, first on your pension business. Now the proportion of pension business, new business sales, is coming down as a proportion of total sales, and it's moving more towards ISA. So going forward, should we expect the proportion of business with surrender penalties to go down as well, which means that your cash may get accelerated in the near future, as compared to over the next seven years? So how should we think about that?

Second would be on establishment costs. Should we just continue to take that as a proportion of your increasing partnership, that cost? Or will there be more expenses on that, given that you continue to expand on that? Thanks.

A - David Bellamy {BIO 14025555 <GO>}

They sound model-type questions for Andy to…

A - Andy Croft {BIO 5711239 <GO>}

If I do the establishment expenses first; I'll touch on the pensions, but it might worth handing over to David as well.

The establishment expenses is the infrastructure of the business. And that's going to be impacted by a, the number of partners and the number of clients, as we get bigger we've got to add more infrastructure; and, b, inflationary pressures. I think the third driver of establishment costs is just compliance costs in an ever-more-compliant world. So those are the drivers of establishment costs.

We tend to target 8%, 9%, 10%, establishment expense growth in one year. In 2014, it will be marginally above that, because we've got the full-year effect of the extra infrastructure we added in, in 2013.

In terms of the pensions, I think we've always said that people are saving for their long-term retirement. If they are capped on their pensions, they're either doing a unit trust, ISA-type, investment, or also, if you remember, we launched an international regular savings plan and there's been a lot of growth into that. And that still has the surrender penalties on it.

A - David Lamb {BIO 15016583 <GO>}

I think there's two different points here; Andy was absolutely right. Because of the new lifetime allowance that comes in from April, it's lower than the current one, then you have a lower contribution allowance of GBP40,000, GBP50,000 it used to be, in terms of GBP35,000 a few years ago, people can put less into pension plans, going forward. But they're still going to retire, and still going to need to do something by way of investing for their retirement. Hence, you see more unit trusts being used, more offshore regular savings plans.

But the second point is that the point I made earlier on about the drawdown market, that same market which is immature, that market is going to grow and continue to grow. And there is an opportunity, therefore, for pensions business to increase on the back of that maturing marketplace as well. So I don't think it's a trend; I think you should be careful to assume it's going to carry on doing that. It won't.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Thank you.

Q - Barrie Cornes {BIO 2389115 <GO>}

Barrie Cornes, Panmure Gordon. A couple of questions, if I may? First of all, in terms of the potential acquisition of the Henley Group, is it just a coincidence that Lloyds has sold their stake? Has that been something that's been holding you back from looking overseas? That's the first question.

The second one in terms of the business; obviously, you're getting much, much, bigger now. You're moving from a small company to a large company, possible FTSE 100 inclusion. How are you keeping the family feel amongst the partnership, and do you see that as a challenge, going forward?

A - David Bellamy {BIO 14025555 <GO>}

Let me do the Henley thing first, and then perhaps Ian can talk about the big company feeling like a small company, because it's something that's close to his heart.

The Henley thing, I think that Lloyds, if I speak very personally, the Lloyds' stake was a distraction; no question, it was a distraction ever since. But Lloyds inherited the stake from the HBOS merger. It's been part of -- one of our objectives is to say can we move on from this position, please, increase -- always believed there was an overhang, increase the liquidity.

There is no question that we feel differently now. We feel like a big business. We feel on our own two feet. We feel less distracted from what's going on in the marketplace. And yes, we've become much more conversant about the opportunities that face us as we take it into the next phase of this Company's development. So probably, yes.

We sat down consciously 12 months ago, saying that we mustn't think about overseas until the -- no, but it was in the head. Ian, do you want to talk about how a big company stays feeling like a small company?

A - Ian Gascoigne {BIO 4439479 <GO>}

Yes. That's immediately what I wrote down, but he's nicked my quote there. One of the challenges -- you're exactly right, Barrie, the challenge of scale is how do we manage the double [ph] of relationships and engagement with the partnership so it is a big company that feels like a small one.

It's at the top of all the management agendas at every level; culture and maintenance of culture is important because, in a face-to-face business, in a people business, people need to feel a sense of belonging, a sense of direction, feel valued as individuals and not just a production unit.

That's been the success of the organization and nothing's changed and we value that, and I think that goes across all the management team. So what I'll say is it's high up the corporate agenda and we are on that.

Just the second point, and I'll just add on Henley, the thing that Henley came about is we saw -- the thing about Henley was an opportunity where we also saw a kind of cultural fit, and it was almost like an overseas mini SJP. So there was a people fit; it's a very similar business; we know we can add value to that business, and we know there's a big market opportunity.

So the timing looks like it was post-Lloyds, but actually, we've been talking to them for some time and now's the time for us to do the deal. So I don't think it was we were waiting for the shackles for Lloyds, it was just a timing issue. But again, that kind of business -- a cultural fit of the people was an important consideration as to that expansion.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Andrew Sinclair, Merrill Lynch. I just want to ask one question about the unwind of surrender penalties which has increased as a proportion of the gestating assets in the pipeline. I just wondered if you could tell us a bit more about why that is.

A - Andy Croft {BIO 5711239 <GO>}

Yes, I think the main reason for that is we've now got more pensions business which doesn't have the new business strain, so therefore, we're applying the unwind of the surrender penalty to all pensions business, and that's why the margin on new business has gone up.

The other side of that isn't because we've increased charges to clients, the other side is a greater unwind of the surrender penalty, going forward.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Thank you.

Q - Alan Devlin {BIO 5936254 <GO>}

Alan Devlin, Barclays. A couple of questions. First of all, can you talk about how you're funding, the acquisition of the Henley Group and how much excess cash, capital you have in the balance sheet and also, do you expect any more dynamic growth opportunities?

Then secondly on the operating leverage, when you talked about the establishment expenses, are they increased? But overall, if AuM [ph] increases at, say, 15% per year, will we expect total expenses to increase on your new platforms? Thanks.

A - David Bellamy {BIO 14025555 <GO>}

Okay. They're both...

A - Ian Gascoigne {BIO 4439479 <GO>}

They're probably both mine. Certainly, on the funding of Henley Group, we've not, at this point in time, disclosed what we're paying for the company, but it's GBP430 million of funds under management, so it's not a huge number. And we can pay that out of the 30% [ph] that we're not paying out by way of dividend, if that makes sense.

I think your second question was, how much more operational gearing can come into play? Sorry, if I heard it correctly? Well certainly again, if we continue to grow new business by, say, 15% a year and keep expense growth to 10%, then we'll continue to see that operational gearing coming through.

We don't see any particular massive step costs that are due to come into play. Now, I'll just put Henley to one side there, because we are going to be investing in Henley and growing the number of advisors.

Q - David McCann {BIO 15885639 <GO>}

David McCann, Numis. I was going to ask a pretty similar point on Henley, so really just a couple of more technical follow-ups to that. Timing, you seem to suggest this will happen before the end of Q1; is that a reasonable assumption?

And whilst the question was asked earlier on the margin of that business, are there any other accounting implications we should consider for that business, or is it just very small and not going to be significant?

A - Andy Croft {BIO 5711239 <GO>}

I think if I do the last one first. It's small, and it's not going to make any real impact on the numbers.

A - David Bellamy {BIO 14025555 <GO>}

Ian, do you want to just pick up the timing?

A - Ian Gascoigne {BIO 4439479 <GO>}

Well there's a series of stage things on the issue. The acquisition hasn't been completed yet, so there's that level, and then there's a series of regulatory approvals both in Singapore and Hong Kong because they're different jurisdictions.

I think the whole rollout is a 12-month project, but by the time our products are on the shelves and they become SJP offices, may not even be until early next year.

Q - David McCann {BIO 15885639 <GO>}

Presumably, when it does happen, you'll break that out separately in the new business statement?

A - Ian Gascoigne {BIO 4439479 <GO>}

Yes.

Q - David McCann {BIO 15885639 <GO>}

Okay. Thank you.

Q - Kirin Singh

Kirin Singh, KBW [ph]. I just have a question on the dividend reserve that you have been building up. It's at GBP70 million you said that they earned. So around that, is it specifically earmarked for dividends? And will it be used to support any potential fluctuations in the cash result, given that you have such a high target payout ratio?

A - Andy Croft {BIO 5711239 <GO>}

Yes. The objective of the dividend reserve is we have to recognize that our income is dependent upon stock markets, and we don't, unfortunately, know what stock markets are always going to do. So the dividend reserve there is there to be able to tap into to, to hopefully, maintain the dividend in difficult market conditions.

Q - Kirin Singh

Sorry, just follow up, otherwise there's no implications that it's specifically meant for the dividend and can it be drawn down otherwise into a different reserve, if you feel that you don't have to supplement your dividend?

A - Andy Croft {BIO 5711239 <GO>}

It's ring-fenced as a dividend reserve, yes. Cash reserve.

Q - Blair Stewart {BIO 4191309 <GO>}

Blair Stewart, BofA Merrill. Just on the dividend, you talked, David, about the business being very predictable, steady state, etc., and...

A - David Bellamy {BIO 14025555 <GO>}

It's got to be [ph] consistent.

Q - Blair Stewart {BIO 4191309 <GO>}

Yes, I was just going to say exactly. You've given very explicit guidance for the dividend growth this year, but I'd say very vague guidance thereafter. Your business is growing. Net flows are very strong as a percentage of opening [ph] assets, so assuming normal market conditions, your AuM should continue to grow strongly, operational leverage you've talked about, and the ability to increase the payout ratio.

Without putting a number on it obviously, how do you think about the dividend progression after this year and into the medium term?

A - Andy Croft {BIO 5711239 <GO>}

What I tend to say is we don't know what the markets are going to do, so we feel very comfortable on a 12 month, one year time horizon that, thereafter, we will continue to grow the dividend in line with the underlying performance, which essentially is the cash profit -- the underlying cash profit, as I said.

And we've got the dividend reserve to tap into, and I tend to say that if we're going to surprise, we're more likely to surprise on the upside than the downside. But I wouldn't want to be more specific than that more than 12 months ahead.

Q - Blair Stewart {BIO 4191309 <GO>}

Just wondering from a shareholder positioning, at what point does this become predominantly a dividend stock, dividend investment case?

A - David Bellamy {BIO 14025555 <GO>}

Well I guess you've got two drivers there, haven't you? The share price and the dividend itself. The dividend is going -- both are going forward very positively. I think our yield at the moment is just over 2% or around 2% and, depending what happens from here on in, it will grow.

We're still very much in the mindset that we're a growth business, that we're building for the future. And although we've had 22 years' worth of really good growth and we're in a fantastic place right now, our trajectory and the optics, looking forward over the next three to five years, is still very much we stay in that growth groove.

He's quite cautious -- we call him cautious Crofty because of good reason. He looks after us well and he manages this process really well, so...

A - Andy Croft {BIO 5711239 <GO>}

I think I'd add we won't hold onto cash unnecessarily, but we have to maintain the security of the Company, I suppose, and the clients.

A - David Bellamy {BIO 14025555 <GO>}

Any other questions? Fine. Thank you very much for your time. Thank you, to my colleagues for very clear answers and we look forward to having coffee with you outside. Thank you.