Q4 2018 Earnings Call

Company Participants

- Craig Gentle, Chief Financial & Risk Officer
- Iain Charles Andrew Cornish, Chairman
- Ian Mackenzie, Chief Operating & Technology Officer
- Ian Stewart Gascoigne, Executive Director and Managing Director

Other Participants

- Andrew J. Crean, Analyst
- Andrew Sinclair, Analyst
- Barrie Cornes, Analyst
- Colm Kelly, Analyst
- David L. McCann, Analyst
- Gregory Simpson, Analyst
- Jon M. Hocking, Analyst
- Oliver Steel, Analyst

MANAGEMENT DISCUSSION SECTION

[Abrupt Start]

...get started. And firstly, welcome to my 31st SJP results presentation. So, there you have it. So, 2018 was certainly an interesting year to take on the role as CEO. But despite a difficult external environment in the last quarter, which of course was on top of an exceptional outcome in 2017, I'm pleased to say that the business has performed well.

But before reviewing the performance, we have some change of colleagues here today. Firstly, as we announced in July, there is no David Lamb, since he's stepped down from the board yesterday. David joined SJP in February 1992, and is retiring after 27 years with the company and the last 12 as a main Board Director. David has made an enormous contribution to the success of St. James's Place spanning many areas of the business. So, on behalf of shareholders and the whole SJP community, thank you, David, for those 27 years of invaluable service.

Although we will miss David's contribution at the board, we are delighted he has agreed to continue to chair our Investment Committee in a non-executive capacity. And as previously announced, Rob Gardner will be taking over David's day-to-day investment responsibilities. I'm delighted Rob has joined SJP, and he's here today together with the majority of my executive team. So, do look them up later over coffee.

Sarah Bates also stepped down from the board in October last year, after 14 years as a Director, and the last four as Chair. Sarah has also made a huge contribution to our success, helping enormously over those years, and more recently, overseeing the transition of the CEO role. So, Sarah, many thanks for your service and support. Iain Cornish replaced Sarah as Chair. Iain is no stranger to SJP having being a Board Director and Chair of the Risk Committee for the last seven years.

So, the agenda this morning. In a moment, I'm going to hand over to Iain Cornish to say a few words of introduction. Craig will then run through the results. Ian MacKenzie, our Chief Operations and Technology Officer, will then cover where we are on the Bluedoor journey and provide a general technology update. I will then finish up, before we open up to usual Q&As.

Now, I appreciate the presentations today will take slightly longer than usual, but I know you have been eager to hear more about Bluedoor. So, over to Iain.

Iain Charles Andrew Cornish {BIO 7095830 <GO>}

Good morning, ladies and gentlemen. And allow me to add my welcome to Andy's. I'm not part of the formal presentations or the Q&A this morning, but I just didn't want to miss the opportunity to introduce myself. As Andy said, I had the great privilege of taking over from Sarah Bates as Chair at the backend of last year; and as Andy also said, I have been on the SJP board for a good number of years. So, I am very familiar with the company.

Craig, in a minute, is going to talk about our 2018 results, and Ian is going to talk about technology, but if at the end of the formal part, anyone does want to have a catch-up with me, then I'm here all morning and for coffee afterwards, and I'll be delighted to speak to you. And equally, if at any point in the future, I can be of any assistance to you, then please don't hesitate to get in touch with me.

So, after that very brief introduction, I'll hand over to Craig to talk about what the board believes to be a very robust set of numbers. Thank you.

Craig Gentle {BIO 20095126 <GO>}

Thank you, Iain, and good morning, everyone. My results presentation this morning will follow a familiar format. Firstly, I'll provide a recap on our gross and net flows, together with adviser number growth for 2018, following our announcement last month. I'll then give a commentary on our cash result for the year, followed by the embedded value result. Finally, I'll comment on our solvency position and the final dividend that we announced this morning.

Our gross flows for the year were £15.7 billion. This compared to £14.6 billion in 2017, which you will recall, was a year of 29% growth. This means that our gross flows for 2018 grew by 8% on top of this very strong comparative. All important net inflows for 2018 were £10.3 billion compared to £9.5 billion in 2017, which also represents growth of 8%.

As we said in our new business release last month, in the final quarter, October was a very normal month, with growth of 16%. Gross flows in November and December, on the other hand, were lower than in the same months for 2017, which is almost certainly a reflection of a sizable fall in global market values, and a ramping up of political and, therefore, economic uncertainty. It's, therefore, notable that, for context, even during November and December, we gathered an average of approaching £60 million per every working day. This shows that growth and resilience remained very much a feature of these months.

During 2018 as a whole, funds under management grew by 5% to £95.6 billion at the end of December. But it is worth noting that with the positive start we've had to 2019, in terms of flows and investment performance, that's resulted in that number growing now to some £102 billion.

Turning to adviser numbers, our aim is to grow our adviser numbers between 6% and 8%. And our actual growth rate of 8% in 2018 was at the top end of this range. This is a net increase of 293 advisers, and that's a net figure. And achieving this rate of growth is of particular importance in underpinning our medium to long-term growth plans. This result for 2018, therefore, bodes very well in the longer term. A particular note is that 142 professionals joined the partnership from our academy, which continues to play an increasingly important part in our success.

Turning now to the cash results, as a reminder, this presentation sets out the way in which cash is merged within the group. And as such, given the presence of a continued significant stock of distributable reserves, it serves as a good indicator of our ability to pay dividends. There are a number of matters within the cash result that are worth commenting on. Firstly, in a very volatile year, net income from funds under management increased by 9% to £388 million. Within this, the net annual management fee has moved with the average value of funds under management, whilst reduction in fees in gestation grew by 15%, reflecting very strong pensions new business in recent years. The new business margin growth of 9% is very consistent with the growth in gross flows of 8% that I referred to earlier.

For presentation purposes, I've grouped together a number of expenses here in the cash result. But taking each in turn, establishments expenses have grown by 13%, which is in part attributable to the costs that we would associate with adviser growth being at the top end of our target range in 2018 with the remainder being part of our continuous investments in building an infrastructure that's able to accommodate the increasing scale of our business and to provide a platform for future growth.

Looking forward, we'll always be careful to ensure that our planning for expenses takes account of the environment we're operating in. But I should emphasize that we will continue to plan for growth. That means increasing the number of advisors, making continuous improvements in the ways we support the partnership and clients, which will in the long term result in growth in funds under management and, therefore, returns to shareholders.

For 2019, we've already announced new office locations in the city of London and in Cardiff. These will result in the sort of modest step change in our establishment cost space that we've seen before with property, and will amount to an annualized cost of approximately £3 million in the cash result for 2019 and beyond.

Whilst on the subject of property, the new IFRS leasing standard will not impact on our cash results. It will simply result in another IFRS accounting timing difference that will reverse over time. It doesn't affect cash flows. We continue to invest heavily in our overall technology infrastructure. This investment is largely geared towards developing and launching technological solutions to enhance communication, engagement and security throughout the group and its partner practices. This, together with a high level of development activity within our investment management area, has resulted in a £5 million increase in operational development expense.

Ian Mackenzie, who is speaking next, will do more to bring the value of this investment to life. And for modeling purposes, you should assume a similar level of cost for 2019. The FSCS, as you know, will be reverting to a full-year billing cycle for 2019 and beyond, so that'll be a 12-month billing cycle for next year.

Finally, on core expenditure, academy costs increased to £8.4 million as we continued to build the scale and capacity of what is and will continue to be an important growth engine for the business. A positive feature of this year's cash result is the significant increase in tax relief from capital losses, which increased by £18 million year-on-year.

The process of calculating the tax credits is complex, but put simply, the fall in the markets during 2018 resulted in a scenario, where past losses could be relieved more quickly than would otherwise have been the case. 2018, in many respects, was not an ordinary year. And for the same reason, the amount recovered should not be seen as normal. For modeling purposes, we would revert to previous guidance of between £10 million and £12 million a year. After £9.9 million of miscellaneous items, the 2018 operating cash results was £342.8 million, up by 11%.

Turning to investments, the results for Asia are on track, as is our strategy, although some uncertainty in the markets impacted the net results of £16.7 million that we showed in the cash results. We now have 133 advisors and over £1 billion of funds under administration. We expect these businesses across Asia to start contributing a positive embedded value during 2019.

Rowan Dartington was also impacted by the markets in 2018, but in spite of this, now has funds under management of £2.3 billion, growth of over 10%. We've now recruited DFM investment managers in all of our key group locations. And when you consider the success of driving DFM growth through partnership referrals, which stand at approximately one-third of funds under management for Rowan Dartington, the infrastructure we've invested in will serve us very well going forward.

Very shortly, Rowan Dartington will be announcing an extension of his DFM services through the acquisition of a very small complementary investments in general advisory firm. This will be modest in scale, but consistent with the strategy of achieving growth organically and through small bolt-on acquisitions, if they can be judged to be a good fit. Taking these investments into account, the underlying cash result is growing by 10% to £309 million.

Back office infrastructure costs for the year was £35.8 million. During the year, we successfully completed a series of large and very complicated migrations. Ian will describe what this is involved in more detail, and will also comment on the remaining steps in our Bluedoor journey.

Given our success in 2018, we remain confident that we can complete our migration work in 2019 as we have guided in the past. And for modeling purposes, you should assume a 2019 cash expense similar to that of 2018. Once complete, the vast majority of this cost will fall away. Finally, the total cash result was £268.7 million, which is up by 6%.

Before I move on from the cash result though, I would emphasize that we now have over £33 billion of funds in gestation funds that have been gathered, but which are not currently contributing to the cash result, that's a third of our overall funds under management. Assuming things remain constant, once this current stock matures in six years, it will be contributing an additional £250 million of income to the cash result.

Turning now to the embedded value result, where our new business profit was up by 9% to £852.7 million. This is attributable to our growth in new business levels. It's worth remembering that in 2017 we saw a significant step change in margin, which was positively impacted by the change in contract boundary in the then newly launched Retirement Account.

During 2018, we recorded a positive experience variance of £24.5 million, which represents continued positive retention experience, partly offset by planned developments expenses. The positive operating assumption change of £25.9 million is largely attributable to the long-term economies of scale that new business brings to the enlarged book over its estimated life.

The EEV operating profits of a little over £1 billion has increased by 9%, but is, of course, then impacted by the investment return variance of £460.9 million, which is a result of the actual market performance during the year compared to assumed market performance at the points at which the opening EEV was calculated.

Because the variance is calculated using market values at 31st of December, this has inevitably swung in 2018 to a negative and resulted in EEV profit before tax of £526 million. The recovery in the market subsequent to the year-end would significantly reverse this effect if the number were to be recalculated now. The total embedded value at December 31 was £5.8 billion, which is £11.09 a share. But as a reminder on top of this, at the end of 2018, there's approximately £350 million of unrecorded embedded value that will emerge, but which isn't yet recorded in our results, because of the contract boundary in our pre-Bluedoor pension products which remain unchanged.

On solvency and capital, I have little to say because very little has changed. In short, the capital position across the group remains stable. We continually assess the adequacy of the MSB that we hold, and this has remained constant during the year and we expect this stability to continue.

I'll turn now to the final dividend that we announced this morning. This, when combined with the interim dividend paid in 2018, results in annual dividend growth of 12.5% for the year. At 83% of underlying cash, it's slightly ahead of the guidance we've given, but it is still largely driven by a 10% growth in that figure. It also, however, reflects the fact that in spite of current uncertainty driven by external factors, the medium- and long-term fundamentals for our business remain in excellent shape, and good strategic progress continues to be made.

So to summarize, the business remains resilient and in excellent shape. We continue to grow the partnership, and the partnership continues to attract and retain net inflows, which grows funds under management and which therefore creates further shareholder value. Whilst technology that we are not immune to external conditions, we have confidence in our business model and in our continued growth prospects.

Thank you very much. And I will now hand over to Ian who will speak about Bluedoor progress and our approach to technology generally.

Ian Mackenzie {BIO 18366729 <GO>}

Thank you, Craig and good morning everyone. Over the next 10 minutes or so I'd like to give you a deeper insight into our platform journey with Bluedoor, some of our other technology initiatives. I will also touch on cyber as we ensure that St. James's Place is strongly positioned for the medium- and longer-term, as we harness technology to power our face-to-face advice model. But before doing that, a couple of seconds on me.

So, my name, as (00:17:58) said, is Ian MacKenzie, Chief Operations & Technology Officer. I joined St. James's Place over 20 years ago and I've held various roles of my responsibility, now covering all of our operations and technology, technical support to the partnership, and governance and oversight of what we called our manufacturing entities, but enough about me.

The Bluedoor platform has been an important strategic development for us over recent years. We have successfully executed a large-scale migration of clients from a policy-centric insurance administration system to a client-centric wealth platform, with minimal disruption to our clients and partners.

We have chunked it down. We have taken our time and we have delivered alongside significant growth in the business. Now, let's put some context into it. Here are some numbers. Our funds under management on the platform are now some £62.3 billion. For our latest migration, we had 500 people playing their part on three different continents. We trained 300 new users of the Bluedoor system to be ready for the migration. We moved over 375,000 accounts, every single one of them 100% reconciling back to the previous system. And we moved over 27.1 million transaction records, all over one weekend, and this was just one of nine migrations we've done or are underway.

Now, we started this journey with a legacy system, simply which would have become end of life, and what's fundamentally an admin system of yesteryear. We will end it with our clients at the center of our record-keeping and administration, a modern, more efficient platform which will scale and power our future growth.

Now, as you know and we've said this morning, we fully expect to complete the journey for our UK business this year. All of our migrations have been successful thus far. And even just last weekend, we launched our life investment products on the new platform with no hedges and processing business as usual on Monday morning this week, another major milestone passed on our journey.

Over the coming months, we expect to complete the migrations and be in a position to start decommissioning the legacy mainframe later in this summer and achieve something many have never done before; we will have launched a new platform; we will migrate to a new platform; and we will actually switch off the old one with minimal impacts on our clients and partners.

Now the Bluedoor platform is fundamentally a building block for our strategy to deliver operational excellence to our partners and clients, and we are very pleased with where we are. Scalability by design is built in. And later this year, we expect to have over £88 billion of our funds under management administered on the platform.

Now, whilst the end is in sight for the program, we will, over the coming months, continue our cautious approach, focusing on delivering a quality outcome for partners and clients. Thereafter, our ongoing focus will be on fine-tuning the platform to support operational excellence and service excellence and leverage its inherent power.

Now, we've already seen some of the benefits of the platform's resilience and scalability. Most of you were probably sitting in a year ago as the Beast from the East struck. Remember all the snow last year. Well, and no impact at all on our back-office processing, because our teams in India simply continued processing. The Bluedoor platform doesn't depend on geography. It brings in resilience. It brings in scalability.

I'll look at tax year-end on the 5th of April, when we process a significant number of visa applications, all of them going straight through our system onto the platform, something only 3 or 4 years ago, we had been shunting lots of bits of paper around the country on, a system designed for scalability, a system built for growth, a system to power face-to-face advice, a system to support the growth of SJP.

Now, for the next few minutes, I'm going to share with you some of our internal technology slides. So they look slightly different from the corporate stuff. Apologies to Andy and Craig and the accountant, so they're not quite as exciting for you, but anyway, the world of technology as we know is changing and at exponential speeds. The importance of trust and core values will soar as we all seek to get our heads around the pace of change and the rise of the machine.

We have seen this start to develop in recent years, most commentators were a few years ago will be talking about data is the isle, instead many commentators now talk about the rise of trust and argue that trust will decide whether businesses succeed or don't.

But what does that mean for our business, technology in SJP? We are a face-to-face people business built on trust and core values. Our clients have trusted us to look after more than £100 billion of their money, and we do it well. Technology will play an increasing part in supporting that trusted relationship we and our partners have with our clients.

We are harnessing technology to augment and support our face-to-face model. Our vision is that our partners have a compelling technology proposition. Not only will this enhance the service to clients and drive efficiency in partner back-offices, it will also attract and support the recruitment of new advisors and partners to SJP.

Now, Andy covered some of this when he spoke last June – last July in fact. But what I want to do is remind you of where we actually are, what we do today, add some color and share some of our thinking.

So, today, our clients have access to our online portal, we call it the Online Wealth Account, where they can see up-to-date values for asset allocation in multiple currencies alongside their personalized returns. Personalized returns, net of all charges over whatever period the client chooses, not generic calendar year performance of funds, but specific individual calculations allowing for their personal cash flow and their cash flow timings. They can also today add additional funds through, for example, (00:24:15) debit card, as well as access to online document store and securely message SJP and partners. Our research suggests this functionality is beyond where many others are today. Alongside this, we offer our clients a client app (00:24:30) which works on all devices and provides similar functionality for them.

Now, recently we've launched our new CAPTURE app for our partners to securely streamline our onboarding process, to simplify the capture of client ID documents. And we'll be launching a pilot in Q2 of electronic onboarding, removing paper, embracing digital signatures and making it easier to do business with SJP. These strategic investments are expected to enhance our service to partners and clients with benefits including increased productivity from the partnership as processes are simplified.

Now, to put some context on increased productivity and efficiency, last year as part of our operational development activity, we launched our My Practice portal for our partners, providing them electronically with key information and metrics to help them run their business. Our research and feedback suggests this has free up one to two days per month of admin time for partners to spend more time talking to and seeing clients.

We will continue to build on these digital capabilities and the bedrock of Bluedoor to deliver our vision that our digital capabilities will support and enhance a face-to-face advice experience truly centered on the client. This is a key theme for our strategic developments, enabling a digital SJP which powers and augments face-to-face advice.

Now, we would do this through the development of tools to aid the advice process. We're not starting from scratch here, as our existing tools are actually very strong. For example, our portfolio app, with live stochastic modeling powered by the BlackRock Aladdin engine, as well as what-if analyses to help portfolio construction and review, is market-leading in the financial planning space.

Building on this, we are focusing on areas such as helping clients to identify and track their goals, plan decumulation efficiently and structure their wealth appropriately. As we complete the Bluedoor program, the integration of these front-office tools with our back-office system will enable a joined up experience for our partners and clients, driving productivity, driving efficiency and driving expected increased share of a client's investable assets.

Our technology developments do not just focus on partners and clients. We are also exploring efficiencies across our employee team, which will make our engagements and oversight of the partnership more tailored, more appropriate, more relevant, a true single view of the partner's relationship with SJP to enhance oversight and supervision, but also drive the value-add from SJP to enhance SJP as the home of choice for financial advisors.

Beyond this, we have recently implemented our first deployment of robotics, robotic process automation or RPE within our business checking function, and we are working with our offshore development partner to identify other key processes which can be automated to improve the client or partner experience, whilst also driving efficiency gains, scalability and powering face-to-face advice.

Now, I mentioned our offshore development partner intellect, who are based in India, who you may not know. We have around 450 associates supporting SJP's technology journey. As part of this, we're doing a (00:27:57) joint innovation team with them for exploring further ideas such as data analytics, chat box and other AI-powered developments, with a focus on rapid prototyping, rapid value realization and support and enhancing our face-to-face advice model.

These initiatives will not only enhance our service to partners and clients, but also enrich our data and complement the 27 years of data we already have on investment decisions, client transactions and outcomes.

In 2018, we started working on understanding our data as an asset and this will continue over the coming years. This is a key part of our operational development program which will enable us to use our data to drive the experience of our clients and partners, capturing efficiencies and driving productivity.

Now, throughout all of this, we are very mindful of risks, be that cyber risk or wider risk. We continue to develop our cyber resilience and cyber posture. We work closely with external advisors, regulators and other authorities to ensure we understand the threat environment and have appropriate plans and protocols in place. We will continue to invest in our cyber resilience and cyber maturity as a part of our operational developments.

Now, St. James's Place is arguably an original platform model. We have over 27 years created the ecosystem, the platform if you like to bring together and host financial advisers, enabling them to de-risk their business, build value and access to world-class investment managers and an operational infrastructure to allow all this to thrive. Through this ecosystem or platform, we will enable and power the continued growth of SJP by face-to-face advice augmented by technology, delivering what clients want, when they want it, and how they want it.

Thank you very much, and I hope I've managed to provide you some insights into both our Bluedoor journey, as well as our technology thinking.

Thank you again. I'll now hand you back to Andy.

Thank you for that insight, Iain. And I'm sure you would agree we've made some significant progress on the Bluedoor journey. The end is in sight. Once we have completed the project, our business processing, as Iain has said, will be on a modern 21st century platform, providing us with scalability to accommodate our growing business needs. Efficiency gains, not just for SJP, but also our partners, as well as enabling us to improve the service to clients. And furthermore, as Iain has covered, Bluedoor will provide the bedrock for our future technological capability around automation, data and our digital offering.

Bluedoor is just one of a number of investments we are making for the future. We are investing in Asia and Rowan Dartington. Craig has already covered these, and both are progressing well. In 2018, we have made a significant investment in our Academy and the Next Generation Academy and investments that will play an important and growing role in developing our next generation of financial advisors.

Last year, 142 graduated from these academies. And at the end of the year, there were 379 individuals at various stages in the program. We also continue to invest in our investment management approach. And last November, we launched a new diversified asset fund, managed by KKR. This provides an exclusive opportunity for our clients to invest in a diversified portfolio of public and private market assets within a single investment fund; a strategy which has historically only been available to institutional investors.

Now, as well as being attractive to clients, this new fund also significantly increases the capacity of our investment proposition. Ensuring we have sufficient capacity within our fund range is important and the introduction of this new asset category, together with the appointment of GMO and Jennison as co-managers of our balance managed fund provide us with significant scalability as well as increasing diversity and flexibility. There is no question that we have a truly world-class lineup of fund managers and investment strategies, embracing 39 investment houses and 79 managers, many of whom are only available to UK retail investors through St James's Place. We also continued to enhance both the depth and breadth of the services we make available to our clients.

Now, why are we making these investments? Well, quite simply because we are very confident about our medium- to long-term prospects. As you've heard me say before, the size of the market is large and growing with a considerable savings gap that needs to be bridged. The need and demand for trusted face-to-face advice has never been greater. The number of qualified advisers in the UK is insufficient, creating an advice gap whilst at the same time, there's an expected £1 trillion intergenerational transfer of wealth over the next decade; the perfect environment for a client-focused advice business like St. James's Place.

And what are our clients telling us at the moment? Well, we've now received 34,000 responses to our biennial wealth account questionnaire which was distributed during the second half of January. From these responses, 89% of clients are satisfied or very satisfied with their overall relationship with SJP. Encouragingly, 94% of clients said they would recommend SJP, whilst 55% suggesting they've already done so.

And when asked to describe our all-inclusive proposition in terms of value for money, 96% of clients said reasonable, good or excellent, with 80% saying good or excellent. Strong results which compare well to the answers received in 2017, particularly so given the impact on client investments from the market correction at the end of last year.

In September 2018, we also engaged Wealth-X to conduct independent client research. The feedback of clients from this in-depth research validates the wealth account feedback. It is also pleasing that once again, SJP received a host of industry awards with a particular highlight being the City of London Outstanding Accomplishment Award. This was a special award in 2018 to recognize SJP being voted Wealth Management Company of the Year every year since the award commenced. We are likely very proud of these awards.

So, to the future, Craig earlier provided a recap on our new business. And whilst growth year-on-year was lower than our medium-term objective, we still took gross inflows of £15.7 billion, up 8%. It's also important to remember our objectives of medium to long term. It does not mean we will necessarily achieve them in every quarter, particularly following a strong period of growth and/or during periods of external turbulence.

But if, on the other hand, we look at our longer-term performance, we have achieved compound growth of some 18% over 2, 5 and 10 years. And looking at net flows, we experienced strong flows in every quarter of 2018, continuing our consistent record of both net inflows every quarter for the last 10 years and our record of annual net inflows in excess of 10% of opening funds under management. We have achieved compound growth in net inflows of some 20% over 2, 5 and 10 years, proof our business is resilient.

And let's compare our 2018 performance with the combined top five platforms in the UK. At the nine month stage, their net flows were down 19% compared with our growth of 15%. In October, their net flows were down 68% compared with our growth of 18% and in

November and December, these platforms have net outflows, whilst we continue to have net inflows.

So, our business is not just resilient, but continues to outperform in all market conditions. And let's reflect on why this is the case, our competitive advantage if you like. Well, first and foremost, is the strength of our partnership with their long-term client relationships. They are some of the best and most experienced advisers in the industry who provide a level of tailored and expert advice that clients truly value. Through our partners, we have the direct client relationship.

The second reason is that clients have invested with SJP following holistic financial advice specific for their individual circumstances and requirements, which is also likely to be for the longer term. Clients will be invested in tax wrappers and advice to use their annual allowances, which would otherwise be lost.

Then, there is the ongoing advice and service, the regular reviews, the hand-holding during more difficult, personal concerns or volatile stock markets. The next reason is our broad and attractive client proposition, but in particular, our investment management approach. We have our own range of funds and appoint carefully selected external investment managers who are appointed on a sub-advisory basis. These managers are then regularly monitored and when necessary changed.

It is also important to note that our clients can switch between the funds and asset categories free of charge, and in most cases, free of a tax event. They do not have to encash and reinvest their money. Furthermore, our client base is well diversified. No one client has a significant proportion of our total funds. Consequently, we do not experience large one-off outflows. I know incidentally given that investment management approach, are we exposed to the risk of a star fund manager leaving? We could easily follow an individual in such an eventuality. Then, there is the security that clients have of dealing with St James's Place partner knowing that the supervision and support of a FTSE 100 firm stands behind everything that they do.

So in summary, there is a growing market, a growing need for advice, a declining number of advisors in the industry, and a £1 trillion expected intergenerational transfer of wealth over the next 10 years. We have the right client proposition together with high levels of client satisfaction and advocacy. The partnership not only consists of the best advisors, but as an advisor base that continues to grow. The Academy has proven to be very successful and our partners continue to invest in their businesses, whilst at the same time the corporate is also investing in both capability and scalability to manage future growth.

So whilst challenging market conditions and uncertainty may slow the pace of funds from time to time, we have experienced these conditions before. Our business is resilient and we will continue to invest for future growth. Supporting our growth objectives is a strong balance sheet with a knowledge of a growing income from existing business. Furthermore, with the market recovery at the start of 2019 together with ongoing net inflows in January and February, our funds under management have increased to some

£102 billion. Now, we've had a number of queries this morning on what we mean by motivated.

Whilst I'm not going to give an exact number, I do draw your attention to there being no adjective such as large or significant before the word moderated. We are still receiving tens and tens of millions of flows every working day. Furthermore, we can be very confident that the money will ultimately be invested when stability returns. Our experience tells us that some clients are delaying their investment decisions, so not investing rather than investing elsewhere.

For instance, our net inflows in 2018 were down 11% in those difficult market conditions, then up 31% in 2009, followed by 30% in 2010 as uncertainty diminished. These factors support a growing return to shareholders as demonstrated by the 12.5% increase in the full-year dividend.

So, thank you for your attention. A summary of the key financials are shown on the current slide, continued strong growth across all key financial metrics.

Now, can I ask Craig, Ian Gascoigne and Ian McKenzie to join me for Q&A.

Q&A

So, we'll start with Andrew at front here.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Thanks. It's Andrew Sinclair from BofA Merrill Lynch. Three from me if that's okay.

Firstly on advisor growth. Good to hear that the attrition of the 6% to 8% net recruitment target. Just wondering if you could give us any more color on the productivity of those advisor graduates - sorry, Academy graduates, given I think that's something in the region of 10% of new business coming from those graduates.

Secondly is just on asset management charges. I've seen a few platforms trying to squeeze down the asset management charges on those platforms. You've clearly had far lower asset management charges to start with. Is that something you're looking to put more pressure on reducing those asset management charges for your clients?

And thirdly, just going back to the Q1 flows again. You said gross flows have maybe remained a little bit tough, but have you also seen a similar tick-down in gross outflows that you saw in 2018 happening again? Thanks.

Okay. So, I take a couple of them, and then come over to advisor growth. When I was talking about motivated, what we're saying in the CEO's statement refers to net inflows. So, we continue to see net inflows, strong net inflows, in January and February. But they have moderated.

In terms of the asset management charges, I think as you said, Andrew, we already get very, very good rates from our external fund managers. We will continue to have conversations with them as the level of funds that they're managing increases. Ian, do want to talk about the advisor growth in the Academy?

A - Ian Mackenzie {BIO 18366729 <GO>}

Yeah. We start with the academy growth. The Academy, you're correct. The graduates from our Academy are now contributing over 10% of our total new business. And in some parts of the country, in London, for example, where we've had more Academy graduates historically, because that's where the original Academy is located. In some locations, it's approaching 20%. So, the Academy is making a substantial contribution to new business. The average age of academy graduates is 38. But what is true is that the growth dynamic is, it takes longer for them to become established as the average productivity of an average partner because they are inevitably new businesses. So, a new business average age 38 with a long career in front of them maybe takes three or four years before they become up to average productivity that we'd expect from an experienced partner.

In terms of advisor recruitment generally, we've had a period of very strong years in that area. We've started this year very strongly and we are benefiting immensely from 2,500 partnered businesses that are desperately keen themselves to take on an advisor. So, we've got some good homes for our advisors who want to join the business, who aren't maybe ready for building their own business on their own and that's what's driven the growth recently. And by going into an established business, it increases their productivity, the new advisors who actually who go into practices are more productive, more quicker than actually a new partner joining SJP. So, that's what's driven the growth and continues to do so.

Thank you. Let us pass it back to Andrew, there's David behind you. And then, we go from David to Jon, save the ladies (00:46:51).

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

Good morning, guys. A couple for me. Just on the cost base, Craig, you referenced the £3 million increase in the establishment expense, but presumably there will be continued growth on top of this. I appreciate some of these cost are fixed and some are more variable. So, maybe you can kind of give us a reasonable range of what we should look at that kind of rate going forward assuming kind of reasonable organic growth? I guess that would be the first question.

And then secondly on the dividend, obviously, guidance was at 80% payout ratio, you come in ahead of 83% as referenced in the presentation as well. And as we think about this going forward, should we think of kind of 80% as kind of the floor? And if so, what should really be the limit to where that kind of can go looking forward to 2019?

So, I'll start off over the dividend and then Craig maybe you do the do the expenses. But we've always said circa 80%, okay? So, if you look back over history, we've been 78%, we've been 82%, 83%. So, we think 83% is still within the tramlines of what we've said.

Now, why did we do 83% rather than 80%? Well, actually the business is in great shape. We see the future in a great position. The underlying cash was up 10%. We've had great strategic progress elsewhere. The partnership has grown, good progress on Bluedoor, strong client advocacy, strong client retention. And of course, we were having this conversation at the end of October, we probably would have been talking about 15%. So, it's just really trying to look through the last two months of the year as being unusual and expect at some point to that to come back. But if you're modeling, I'd go for 80%, but except that, it can increase that payout ratio and have done so. If you go back to 2008 and 2009, we were up to 95% payout ratio.

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

So, just to follow up on that. So, with kind of 95%, then the reasonable limit as to – let's assume things got worse later in the year (00:48:54) because of market?

Yeah. I wouldn't want to put a figure on it now, David. But what we also have is at the end of this year, that significant Bluedoor cost will disappear from the cash flow as well. So, that gives greater flexibility.

Craig, do you want to answer the question on expenses?

A - Craig Gentle {BIO 20095126 <GO>}

Yeah. On costs, excuse me, as I mentioned earlier, we're still very much budgeting for growth. What we clearly have at our disposal there were a number of levers that we can pull on if we ever find the need to and your reference to sort of fixed versus variable cost, yes, some of them are fixed. Property would be a good example when you make a property commitment. There are other expenses that we incur that are on a case-by-case basis and they were all geared towards the question of whether they paid further growth, whether they paid further productivity. And if we ever have the need to we could batten down the hatches. So standing here today, we are still budgeting for growth. That's very much the case. We'll update at the half year on where we are with projected expenses.

And I would, therefore, say the safest thing to assume from a modeling perspective from today is the normal 10% that we've quoted in the past. And on top of that though, I would emphasize the comments I made on property, it's a small amount, but over the next few years, we will inevitably be having some leases come to an end and you move into new property. So, every now and again, you'll see some step changes. The way we see those step changes coming, we'll guide well in advance.

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

The £3 million, the £3 million is within the 10% or the £3 million is kind of outside of that?

A - Craig Gentle {BIO 20095126 <GO>}

I'm sorry, I'm struggling.

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

Is the £3 million on top of the 10%?

A - Craig Gentle {BIO 20095126 <GO>}

So, yes. I think for modeling purposes, I would put the £3 million on top of the 10% increase.

David, just pass over to Jon?

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

Good morning. Jon Hocking from Morgan Stanley. I've got questions please. Just to come back on the establishment expenses. Craig, you sort of made a link between obviously the hiring growth of the agents and establishment expenses. When we see Bluedoor fully implemented, are there any sort of efficiencies that come through in terms of onboarding and actually sort of reduced support costs for the holidays (00:51:23)? That's the first question.

Secondly on Asia, you mentioned that it was going to be sort of EV positive. Can you update the guidance you've given previously in terms of when we might see a sort of IFRS breakeven or cash breakeven for the Asia business?

And then just finally, on the – when you were talking about the sort of dividend, et cetera, you mentioned distributable reserves and just if you look at the very simplistically that EPS is ahead of IFRS basic EPS. Can you just comment a little bit about what the stock of distributable reserves is and whether there's any sort of reasonable constraint we might think about going forward? Thank you.

A - Craig Gentle {BIO 20095126 <GO>}

This time two years ago, I would have thought, damn, those three questions are coming to me. Unfortunately, right, a hat trick. Apologies. Let me deal with those in reverse order.

The distributable profits point, I've made the comments in my presentation that we have a significant stock of distributable profits, and perhaps the first part to call is to look at reserves within the consolidation, but I would caution that looking at reserves in a consolidation is not necessarily the right thing to look at, because distributable reserves are calculated at an entity level.

So, when I talk about material stock of distributable profits is very much the case that we have exactly that across the group, which might seem counterintuitive given what you've described about the sort of pattern between cash and IFRS, but you then have to go almost back to the start of the group. And it's very often the case that with any kind of life business activity, the reality is you do accumulate significant accumulated profits, but you don't have the cash in order to make distributions against those distributable profits. So, for a very long period of time, that's exactly what the group was doing.

Now, you get to a stage where you find that the cash is emerging at a rate that you can pay dividends and that was some time ago for the St. James's Place Group. We're now in a position where distributable profits are not a constraining factor. The emergence of cash is the indicator of our ability to make distributions because it's cash that drives that ability.

There's almost a link between the answer to that and the Asia question, because Asia is like a mini St. James's Place. So, I'm sorry to say, cash won't emerge within the next year from our business in Asia. And if we were to use St. James's Place as a proxy, even though there are some sort of big differences in time and the world has changed, Andy will correct me if I get this horribly wrong.

But, I don't think St. James's Place on its own is generating cash for seven or eight years. And this is a fairly new acquisition and there's a lot of investment going in. So, I think the best measure of success or otherwise is the points at which Asia begins to add a positive to embedded value and that is still very much the plan for later this year.

The question on expenses - sorry. Would you mind repeating that, because having had three on the trough, so I just wrote down the word expense.

Well, shall I try for an answer (00:54:52). That Bluedoor is - and Ian Mackenzie might want to come in, but Bluedoor is a (00:54:58) expression, a back-office system. It will help partners and partner businesses, but it's got nothing to do with onboarding partners or the cost associated with recruitment.

A - Craig Gentle {BIO 20095126 <GO>}

One thing I will emphasize, though, is where we have dual running costs, which are an inefficiency within the organization, we have been including those within the bottom line of the cash result. So those costs will fall away. So if you like, a lot of the efficiency will be seen when that number disappears to the bottom of the cash results for the group as a whole.

Has anyone got an IT question for Ian? You see, you got lots of accountants and actuaries in there. So, actually, Jon, do you want to just pass it to Andrew, and then we'll slide over to Oliver, and perhaps on to Colm afterwards.

Q - Andrew J. Crean {BIO 16513202 <GO>}

Good morning. It's Andrew Crean in for Autonomous. Firstly, three questions. Firstly, could you - is this right logic that you've got $309 million cash last year and $258 million by 2024, which is the cash coming in from gestation period, gives you a sort of underlying growth rate before you do anything, or is there something wrong with that logic?

Secondly, do you still stand by the forecast to grow gross flows (00:56:21) by 15% to 20%, or do you think that that will begin to slow just on the basis of your size? And then thirdly, I think you talked about advice is shrinking, but in fact you've got people like Lloyds and

Schroders coming together. Do you see these new entrants as being a threat either to taking your partners or attracting partners who would've otherwise come to you?

Okay. I'm going to do the last one, because I actually talked about number of advisors shrinking rather than advice. But, Ian, do you want to just pick up that question?

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

[Technical Difficulty] (00:57:00-00:57:13) It is in a sweet spot with the baby boomers and inter-generational declining number of advisors. It's a great business to be in. So, there's no surprise for other businesses want to enter the market.

I think the thing that I've said before is that these businesses always underestimate the challenge of building the distribution. I think in terms of looking at the business model, there's just an underestimation of how challenging it is to recruit the right quality people to manage them effectively, to remunerate and administer and govern that business within a culture that helps that business to grow, and maybe Lloyds and Schroders will do really well at that, but no one else seems to have actually managed to pull all the bits together.

(00:58:06), we are probably the largest trainer of new entrants into the business and we are the largest distributions. So I'm sure if I was there wanting to build some distribution, I'd be looking at SJP. The important thing for SJP to do is to make sure we are the right place for advisors to build their business, with the right products, the right platform, the right technology, the right culture, the right future. And if we do that and we concentrate on that, then I don't see it being a problem. We'll see.

Shall I do the 15% to 20% and I'm going to come back to I think the gestation question. If we go back to some of the things I was saying there, whatever our targets are, are medium- to long-term, they're not discrete quarters. We'll always have interesting quarters.

If you think of the three factors that are driving our growth, one is the number of advisors. Okay, you see that we continue to grow the number of advisors, but actually exceeding our own internal target. The Academy is in a great place. So that's the first important one.

The second one is just around helping those advisors become more efficient, taking stuff off them so they can spend more time with clients. And I think Iain probably covered that on Bluedoor, and Ian Gascoigne might want to come in there as well. But the third factor we're just not in control of is what's happening in the external environment, client sentiment. And we just happen to be in that window at the moment where client sentiment isn't that strong, but when we stick it all back together again, we see no reason why we can't continue with the medium-term growth objective.

I would say, at the low end of that 15% to 20% to pick up your point about absolute size. But if we keep doing those things, and we think we're in control of two of them, then we can carry on growing, subject to the third one. Do you want to add anything on the efficiency at all, Iain, or...

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

Well, no. I mean, Iain's made the point about technology. I mean, I think it's interesting. There's always been a debate regarding face-to-face advice rather than a digital. And what we're trying to do is that digital provides and enhances and supports the face-to-face service. And I think that will add immense efficiencies for our partner businesses, and is actually responding to what clients are kind of asking for a hybrid model where they want a relationship and advice on the big technical stuff, where they want access to information at a time that suits them. So I think we're in a really good spot there.

In terms of confidence in the future, and looking at some numbers of age profiles of the partnership, so 65% of the new joiners to SJP are aged under 45 and the distribution is twice as big as it was 4.5 years ago. 78% of all our advisors are under 55. In the IFA world, the average age now of IFAs is 60. So there's an advice gap. We've got the right age profile and a growing distribution. So we are very confident about our future prospects.

Craig, do you want to do the gestation point?

A - Craig Gentle {BIO 20095126 <GO>}

Yeah. I think your logic is correct. I should emphasize the illustrative example we gave is illustrative. It makes some really sort of broad assumptions on the market staying where they are today and everything staying where it is. But in principle, it also assumes everything is sort of written on the first day of the year. But the principle is very simple, that there will be certain blocks that are constantly moving into cash-generative funds under management.

And the reason that grows so significantly is largely due to the other disclosures we've put in the finance report for this year that show the increase in the amount flowing into gestation over the last 5 or 6 years. So, although in the coming year, the Illustrative example gives just over 13% - sorry, whatever the figure is for next year, that grows significantly because if you consider the amount that was added to gestations stock over the last 3 years, it becomes enormous within those final 3 years of that period. But your logic is absolutely correct.

And of course, they're captured in the embedded value calculation, but not in the cash. Sorry, Oliver. Barrie has stolen the microphone. So I promise I'll come to you next and you can beat him up afterwards or whatever you want to do. Barrie?

Q - Barrie Cornes {BIO 2389115 <GO>}

Thank you. It's Barrie Cornes at Panmure Gordon. I've got three questions. First of all, could you comment on review on exit charges, if there's likely to be any impact coming from that?

Secondly, DB to DC transfers, I think you work on a contingent basis. I just wondered how large that is. And is there any potential concern going forward on potential liability from that? And last of all, the use of technology, I know it's back-office as you say, Andy, but is there any danger that it could remove some of the culture from the business by moving towards the technology?

Okay. Well, let me pick up the final one. We have to be guarded to ensure that doesn't happen, Barrie. And as you know, we're a sort of high contact business. We still have the field management team out there. So, it's something that we are acutely aware of. And again, just the longevity of the management team, longevity of partners is vitally important. We see everyone in SJP being a cultural transmitter and they've got to go and infect the people that come in. So that's the first one.

On exit charges, I just want to be quite clear here is that our $6, $5, $4, $3, $2, $1 (01:04:11) as people might call it, is a facilitated entry charge and the regulator is very clear on that. So I don't see that as being an issue.

And on DB to DC, Ian Mackenzie as well as his technology perhaps also looks after well our sort of technical team that supports partners. And so I might just pass that to him.

A - Ian Mackenzie {BIO 18366729 <GO>}

So that's coming this way, is it? Okay.

That's coming your way. You weren't expecting that I know.

A - Ian Mackenzie {BIO 18366729 <GO>}

No, I think I was expecting that one. The DB to DC and contingent charge, I mean clearly we've got the select committee (01:04:43). We have responded to that. Our response is on the public record in terms of if you want to look at the select committee's submissions.

From our perspective, we think contingent charging is an important feature and something which enables advice. Most of the advice organizations have come out in that place. We don't see it as a significant issue in terms of how it might play out, and indeed, we watch where the select committee gets to in that, but our sort of full response you will find on the public record.

Thanks, Barrie. I promised Oliver, so Oliver.

Q - Oliver Steel {BIO 6068696 <GO>}

I have the mic now. Oliver Steel, Deutsche Bank. So, three questions, first is, I wonder if you can just talk in a little more detail about the intergenerational opportunity. How much of that is actually freely available, I guess, is the bottom line question?

Secondly, on technology spend, and I guess I'm really focusing here on the below-the-line spend that you've had on Bluedoor. And you talk about most of it dropping away in 2020 implicitly. But actually I think we can all agree that technology seems to sort of accelerate away from us at the moment. So, what sort of percentage of that £36 million post-tax charge does actually drop away?

And then third question is on advisor recruitment again. So I think at the moment, roughly half of your net advisors, net new advisors are coming from The Academy, but that's only about 25% I think very roughly of the gross new advisors. So, where are you recruiting the other 75% from? And if it's from existing IFAs, how does that develop going forwards, given that, as you say, the advisor – the IFA average age is 60?

Ian, do you want to – Ian Gascoigne, do you want to pick up the advisor recruitment again?

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

Yeah. It's a good question actually. I am always in awe of our business acquisition team and their ability to find people who qualify to join us and to get them to join this. So there's a whole source of sources ranging from bank assurers, people who used to be bank assurers who sets up their own businesses, increasing number of City professionals, wealth managers who are looking at SJP's proposition now and thinking, actually this does stock up and I don't really want to work for megacorporation, I would like to work for myself, dealing with my own clients. And, of course, thus we've set the second generation new careerists into this business. So it's been a very strong source of new people.

I think the challenge for the business long-term is the declining age of advisors and the lack of training of new people coming into the business. And that's only going to accentuate the advice gap. Our projections are that we could possibly see 7,000 IFAs retire in the next 2 to 3 years. And I can't see anybody training the next 7,000. So, there are some kind of little pinch points for the industry to confront in terms of supply.

(01:08:15) on the intergenerational, I don't know if you want to comment on that.

A - Craig Gentle {BIO 20095126 <GO>}

On the intergenerational thing for me, we know if you look at the trends in the population and the (01:08:28) everybody to this, but the baby boomer generation through the 1960s, 1970s and 1980s have massive impact on this country. They're all now growing old together. It's the wealthiest population the country's ever had. They're all growing old, and more of them are dying. And that wealth is being passed down to a generation. And we talk about trillion. It is huge, and over the next 10 years, those individuals are seeking – going to seek advice. And the generation that is receiving the money is going to need advice. And in those situations, I believe the advice tends to be built around relationships with people rather than platforms and machines and anonymous interfaces. So, that particular transfer of wealth is going to rely on people helping that transfer in the most tax efficient and efficient way. And with pensions freedoms and some of the tax changes, I think our business is well positioned to take advantage of that.

And it's probably worth adding, I'm not sure who said it, but the £1 trillion from the research we've done is after the baby boomers, the pay-for-care home and pay-forinheritance tax, so that's the money that actually gets passed from one generation to another.

I've got a choice here of passing the expense question to Craig or Ian Mackenzie. I'll go for Craig, I think.

A - Craig Gentle {BIO 20095126 <GO>}

Excellent. Yeah. It's always difficult to imagine that you see sharp reductions in a group like ours for technology expenditure, but it's worth thinking about the geography of our cash results and where technology expense is recorded. And the area that tends to attract a lot of attention by virtue of its size and the nature of the activity is at the bottom with operational developments. And the reason it's there is because we've always said it's not a short-term project. It's a medium-term project, but it's something that had a very precise start point and a very well-defined endpoint.

And the endpoint is the point at which we've built all of the new surround systems that are needed, and we've migrated all of the business on to that new system. And the points I made about those costs falling away, they really will fall away, because their expenses that we're incurring at the moment, having people actually build something that we haven't got and that we need as part of the core system. It also includes your running costs. And at the moment you might take the view that we're at the most expensive stage of the projects, because we've got basically two platforms in full swing and they will remain in full swing until we can get the last products off and switch the old platform up, so that really will fall away.

Now, the question as to what the long-term future holds are probably redirect attention up into operational developments, and that I think is where the focus of investment will be and that will always be subject. It's not one big thing, but it's a whole series of individual projects that are subject to the sorts of disciplines that you'd expect. And the question that has to be answered when we commit to anything in that line is what is the long-term benefits and what is the long-term value to the business. And I'm sure to put it another way, there will be plenty of further opportunities in the future to invest in technology, but they've got to be able to fulfill those needs.

Ian, do you want to add anything to that?

A - Ian Mackenzie {BIO 18366729 <GO>}

No. I totally agree. I mean I think the key point here for me is that the Bluedoor program will come to an end and, therefore, the (01:12:32) in respect of it will come to an end, but we will continue to invest in what we need to do to drive that face-to-face technology piece.

I think we got Colm just behind Oliver.

(01:12:44) come back on that. I mean you talk about the majority of the costs dropping out.

A - Craig Gentle {BIO 20095126 <GO>}

Yeah.

And yet, you seem to be saying that actually it will stop.

A - Craig Gentle {BIO 20095126 <GO>}

No. So, if you think about, the program will come to a close once the migration is completed. We're not using the word majority. I'm working on the basis that if we were to get the migration finished on the 30th of December, for example, it's not the case that you simply turn a switch and switch off the old systems and move into a new year. There will be a decommissioning period and that will be dependent on precisely when we complete the migration work.

He's being very cautious. Colm?

Q - Colm Kelly {BIO 19140684 <GO>}

Thank you. Colm Kelly, UBS. First question is on MiFID II, so you've obviously seen the introduction of a new requirement to disclose the sterling cost to existing clients for the first time this year. I appreciate it's at early stages, but perhaps you will get some update on the kind of impact you're seeing on the ground in terms of dialogue between clients and partners, increased rate of calls into call center, et cetera, and anything that material that we should note around that?

Second question is just around the group borrowing, so I see that increased through the year to £350 million, so just wondering if you can give some color on the use of that capital. I think previously some of that was used simply as a liquidity bridge between the cash coming from entities versus the cash paid to shareholders. But perhaps you can just give some color around that.

And then, lastly, you mentioned bolt-on acquisitions outside of the UK in the presentation. I know previously potential entry into the Middle East was something that was being considered. I know that was delayed at the time, because you wanted to focus on Asia and the development of that business. Given that that looks like it's on track, is the entry to the Middle East something that could be back on the (01:14:46) for 2019 or perhaps you can give more detail on the nature of that bolt-on opposition to the extent that you can? Thank you.

I'll pick up the last question first. We have no plans in 2019 or near term to go into the Middle East. The bolt-on acquisition has about £1 billion of funds under administration and will be less than £10 million acquisition costs. So, it's very small. I think you also asked about MiFID II, I think the MiFID II disclosure. Ian Mackenzie tuning in (01:15:19).

A - Ian Mackenzie {BIO 18366729 <GO>}

Yeah. I'll take that. So, MiFID II, clearly, as you see, the sterling disclosure of actual charges deducted by SJP for all aspects during the previous calendar year. In the presentation, you saw the Annual Wealth Accounts and the survey. So, our Wealth Accounts in January included the full MiFID II disclosure for all clients, so 650,000-odd Wealth Accounts now with the relevant disclosures in it.

Those Wealth Account Survey numbers in terms value, advocacy (01:15:47) clients who filled in those surveys after receiving their MiFID II disclosures. So, that advocacy, those comments on excellent and good value for money all come from there.

In terms of specifics, in terms of call centers and contact centers, we have seen a very small increase in number of calls. So, I mean nowhere near four digits, very small increase in the number of calls, which generally actually when you get into the call, it's nothing to do with costs and charges. It tends to be you sent me this and everything else, and actually, I've moved house and forgot to tell you. So, a lot of them calling into (01:16:23) routine servicing calls. So, we are pleased with where we are.

Q - Colm Kelly {BIO 19140684 <GO>}

Just to follow up on that specifically, what are the partners saying also on the ground in terms of dialogue directly with the clients on that?

A - Ian Mackenzie {BIO 18366729 <GO>}

Yes. So, I mean, clearly partners have that close relationship with their clients and the conversations that the clients are raising them generally around the value piece, because what we've got here in essence is a regulatory or European regularly drive, using something other than costs, when (01:16:49) actually what most clients are really interested is in value, is in investment returns, is in the tax alpha, is in the advice alpha, and it's that value piece. I mean we're not having difficult conversations with the clients anywhere around costs and charges.

Craig, the (01:17:06)

A - Craig Gentle {BIO 20095126 <GO>}

Yeah. So, there are two lenses to look through on capital, and the one that we tend to discuss first is the MSB. And if you look at our MSB disclosures, you will see that it's very, very, very stable. There's a modest amount that's been retained in the life companies, but there's no reason for that. It's such a small amount. It just happens to be that amount and that's over and above the MSB that we've determined to be necessary.

If you look at the Solvency II calculations, you do get a slightly different view and there's a good reason for that. For those that are familiar with the standard formula, we are a standard formula firm. There's no reason for us not to be. And for the most part, the standard formula works very well. But there's one aspect of it that won't always reflect the risk within the business and it's the equity dampener. And what the equity dampener does is, it sort of smooth the effect of movements in equity prices which is actually of no relevance to us, because we're an operational risk group. And what's happened during the year with equities falling during 2018, there is - let's call it the possibility within the standard formula to reduce the solvency capital requirement.

Now, we disclosed all of our stuff post-dividend, so that's the dividend that we're currently in the process of making from the life companies and for the purpose of making board decisions as to what is appropriate, we ignored that potential benefit. So, we only distribute up to a point that is sort of backpack to our principles, which is a 10% premium on top of the standard formula. So, when you look at the Solvency II-free asset ratio within the life businesses, that would imply that it's gone up, because it has, under the standard formula, but from a management view of what appropriate capital is, it's almost exactly the same as it was last year.

Q - Colm Kelly {BIO 19140684 <GO>}

And then just specific on the borrowings?

A - Craig Gentle {BIO 20095126 <GO>}

Sorry?

Q - Colm Kelly {BIO 19140684 <GO>}

Borrowing in the group has just increased. I'm just wondering the use of that capital.

A - Craig Gentle {BIO 20095126 <GO>}

Are you referring to the free capital?

Q - Colm Kelly {BIO 19140684 <GO>}

No, just the group borrowings.

A - Craig Gentle {BIO 20095126 <GO>}

So, the group borrowing is using the revolving credit facility has gone up. On group borrowings, the thing that has made the most significant impact during the course of the year is the securitization. So, there's a £17 million gross-up, and that has to be - it's included because under the accounting rules, we don't pass any de-recognition tests, and we've no need to. But what you see is a gross-up on both sides. So, you have lending that may have traditionally been made direct between banks and partners, but that gets brought on to the balance sheet even though actually it's not our credit risk. If you take that out, it's almost flat.

On conscious of time, maybe one more question, if there's any. And so, there's one question at the back there.

Q - Gregory Simpson {BIO 18850594 <GO>}

Thanks. It's Greg Simpson from Exane here. Just had a few questions on clients. I didn't see it in the release or presentation, but could you give a guidance on the client growth last year and how that compares to previous years in terms of new clients? The second question linked to that is could you give a guidance to the proportion of flows coming from existing clients and new clients?

And then, thirdly, the moderation inflows this year, is that a function of existing clients being less willing to contribute or is it finding less new clients seeking advice or a combination of the two? Thank you.

I'll try and answer that. I'm sorry, I don't know the exact number of clients that have increased, but my guess is it's probably increased in line with new business because that's sort of what happens. All the research that we do with partners and conversations they have is that they will tell us that roughly - Ian, jump in, if I get this slightly well, half of the business that they get each year is from existing clients, and 40% is from introductions and referrals from existing clients. I would guess that that hasn't changed at all.

(01:21:43) want to add anything?

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

Nothing else. That's right. I mean the other thing for us to understand in terms of the 2,500 businesses is, some of them are at different stages of their own maturity. So, a very mature business may get 95% of this business from existing clients or referrals from existing clients. A newer business is probably less so from existing clients and more from referrals and other forms of marketing, so that we can't generalize about where the business comes from. But overall, I think these figures are, as an average, they are correct.

Okay. I'm going draw to a close there. Thank you very much for some great questions as well. I would say we've run for slightly longer than we would normally do, so I thank you for your patience as well. So, we're going to hang around for coffee, if you've still got time. But if you need to get back, then that's fine. Thank you very much.

Operator

This concludes today's call. Thank you for joining. You may now disconnect your lines. Have a lovely day.