Y 2019 Earnings Call

Company Participants

- Andrew Croft, Executive Director and Chief Executive Officer
- Craig Gentle, Executive Director and Chief Financial Officer
- Ian Gascoigne, Executive Director and Managing Director

Other Participants

- Andrew Crean, Analyst
- Andy Sinclair, Analyst
- Ashik Musaddi, Analyst
- Barrie Cornes, Analyst
- Charlie Beeching, Analyst
- Colm Kelly, Analyst
- Johnny Vo, Analyst
- Jon Hocking, Analyst
- Oliver Steel, Analyst

Presentation

Andrew Croft {BIO 5711239 <GO>}

Good morning everyone. It's half ten, so we should get starting. So, it's nice to see so many familiar faces here today and thank you for coming. Our first results presentation of the new decade will follow that familiar format. In a moment, I will hand over to Craig to run through the financials, after which I will update you on other key matters of note. I have a number of my executive and the board colleagues here today and they are very welcome.

Now, last year was a challenging year for the UK wealth management sector, with investor sentiment being impacted by the uncertain macroeconomic indicators, the US, China trade dispute and domestic political environment. Against this backdrop, our new business flows announced in January were lower than the previous year, albeit, we reported a solid outcome given the difficult trading environment. Once again demonstrating the strength and resilience of our business.

Craig will provide a reminder of last month's announcement, but I can't help myself, I have to share with you my favorite slide, consistent net inflows every quarter for the last decade. The full year net inflow of some GBP9 billion was equivalent to 9% of opening funds under management. So, yes, a tough year but still an impressive outcome particularly relative to the sector. Over the longer term this outcome results in compound growth of 15% per annum. You'll note, we experienced an improving performance in the final quarter as investor sentiment improved after the election result, a topic, I will return to later.

Lastly, on uncertain external environment provided for difficult backdrop for new business, the investment markets had a good year with all major indices seeing strong growth. These returns together with those net flows resulted in funds under management at the end of 2019 of GBP117 billion, growth over the year of 22% and compound growth over 10 years of 19% and that's an increase of more than GBP21 billion over the year. It took us 18 years to reach GBP21 billion and now 10 years later we added the same amount in just 12 months. Such is the size of the business today.

Over time, increasing funds under management will generate increased returns, but in the short term our profit has been impacted by the more modest gross flows relative to the planned higher cost of investment in our business to underpin future growth.

And that's a perfect place to hand over to Craig to run through the reported results and the creation of shareholder value.

Craig Gentle {BIO 20095126 <GO>}

Thank you, Andrew. Good morning, everyone, and welcome again from me. In presenting the results this morning, I'm going to follow the order in which shareholder value is created. Firstly, I'll recap on adviser numbers, which as we reported last month have grown. And there are key lead indicator for future growth. Second, I'll comment on our growth in funds under management, which now stand at GBP117 billion as at December 31. Third, I'll give a commentary on our cash results, including the way in which the gestation balance has developed. Then I'll look briefly at the EEV results and our capital position and then I'll finish on the final dividend, which we announced this morning.

Our adviser numbers now stand at 4,271 and that's up 8% for the year, representing a net addition of 317 qualified advisers to the Partnership. This is at the top end of our growth objective and this is the result of sustained investment. Our Academy continues to make a significant contribution to adviser growth numbers, with 172 advisers graduating during the year. Andrew will talk more about the Academy and give further insight into its scale and reach shortly.

Our funds under management now standard at a record GBP117 billion and that's growth of some 22% since the start of the year. This growth came from a combination of net inflows of GBP9 billion, continued strong retention of 96% and market performance that was much improved on the experience of 2018.

If we look at the way gross flows have developed during the year, you can see a very modest improvement during quarters two and quarter three. Followed by quarter four where we saw a return to growth of 1%. We saw further growth in January, and we're pleased to say that the good start to 2020 has continued through February. It's worth remembering that January and February are two of the smaller months and the March usually represents 40% of the quarter but nonetheless, we are very pleased with the shift in momentum.

Turning to the cash result, our net income from funds under management was GBP424.9 million, which represents growth of 9%. You will recall that at the half year we gave you improved net income guidance based on the margin on mature funds under management. The margin for the year was within that range of guidance and we anticipate a similar margin holding for 2020 now that the small positive impact that we expected from a reduction in corporation tax will no longer happen.

I'll now turn to gestation funds under management, which stood at the total of GBP40.2 billion at December 31. This is a critical aspect of our business model and here we show a reconciled illustration of how the balance might flow into the cash result in future reporting periods using some simple modeling assumption set out on the slide. What this next illustration shows is that once all gestation fund under management matures there'll be an additional GBP350 million of profit flowing into the cash result and that's free of any additional cost. This is an enormous store of value and another way of looking at it is that based on the same modeling we're going to see underlying cash of over GBP1 billion emerge over the next six years from the current balance of GBP40 billion.

Following our new guidance on the net income from FUM line, we saw a much tighter sell side Group estimates this year-end. And we plan to the publish consensus forecast on our websites with the aim of having this in place ahead of the interim results for 2020. And I hope this will be seen as a positive and hopeful development. The margin arising on new business was GBP127.5 million, which is directly linked to the gross flows during the year.

The margin in the second half was similar to that seen in the first half, which is to be expected, given that there was no material difference in activity level. Within the expense figure on this slide establishment expenses were up 9% to GBP186.1 million and this is below the 12% guidance that I gave this time last year. And the lower amount comes from a very strong focus on discretionary expenditure balanced though with a strong commitment to continue investing in future growth. I expect establishment expenses to increase in 2020 by 9% again, as we continue to invest in this growth.

Operational developments at GBP22.3 million, largely reflects continuing investments in technology and that's over and above our Bluedoor program, which is now complete. We'll continue to invest in technology in order to seek benefits for clients experience and for the running of the business and I expect this cost in 2020 will be somewhere in the region of GBP26 million. Academy costs were 30% higher as planned and we'll continue to grow the Academy in 2020. I expect this additional investment to be in the range of 5% to 10%.

The FSCS charge of GBP23.4 million included an unexpected charge for the second half, amounting to somewhere in the region of GBP7 million. This will be as unwelcome to shareholders as it was to us. We are naturally supportive of any scheme that serves to protect consumers in our sector for the cost of doing so show no signs of moderating.

Part of the year-on-year increase was, of course, attributable to a one-off change in the billing year, which was anticipated.

We have no control over FSCS budgets but early indications are that the charge for 2020 could be some 15% to 20% higher. Within the shareholder interest and tax relief column shown you will note the tax relief from capital losses of GBP10.3 million returned to the lower end of the GBP10 million to GBP12 million per year range. And we expect the remaining store of value of GBP44.6 million to flow into future cash results at around GBP8 million to GBP10 million a year in the future.

Miscellaneous was GBP14.3 million for the year. As I said at the half year this net charge includes a number of different cash flows, including GBP6 million of matched Charitable Foundation funding that are not covered elsewhere in the cash result. The overall net charge in the second half of the year was half as in the first and the overall charge is a figure we are committed to reducing over time. It's a difficult line to model with absolute precision. But you may wish to assume that the annual charge for 2020 will be some GBP10 million to GBP12 million. The actual outcome will of course be subject to modest fluctuations.

Our net investments in Asia was some GBP3 million higher than we guided for the year. And this is largely attributable to the very difficult conditions faced by our business in Hong Kong. These conditions resulted in a net embedded value cost in 2019 instead of the small surplus that we forecast. Funds under management grew by 49% to GBP934 million. The conditions in the region have become even more challenging in the past few weeks and we are focusing very heavily on supporting our teams, managing our cost base, but continuing to ensure that we invest for the future. Taking the current challenges into account, I expect the cash results in 2020 to be around the same level as we saw in 2018.

The result for DFM is in line with guidance and although the income was below our forecast, strong cost control protected the net result. Rowan Dartington now has funds under management of GBP2.8 billion and that represents a pleasing 24% growth for the year. I expect the result for DFM in 2020 to show a modest improvement with an accelerated improvement in 2021 onwards. Taking all of these items into account, the underlying cash result was GBP273.1 million, 12% lower than 2018, which we see as a very credible outcome given the trading background and our continued investments in future growth.

It's important to remember that 2018 benefited from some one-off positives in the form of accelerated tax relief and a shorter FSCS billing period. So, the like for like reduction is actually much smaller. Our back-office infrastructure costs were GBP38.8 million, and the key thing here is that 100% of our UK business has now been migrated on to the Bluedoor system, which is in full use in a newly configured back office. This has been a hugely complex program completed at a time when the business has been growing strongly. We are naturally very pleased that the migration has been completed safely and in line with plan.

We're now decommissioning the old systems and redundant back office processes and the residual cost in 2020 will be no greater than GBP10 million. Once this work is complete there'll be no further project cost.

I'll now turn to embedded value where the operating profit was GBP952 million. New business profit reduced by 7% to GBP793 million and this is principally due to the new business volumes for the year together with the growth and establishment expenses that we've already covered in the cash results. On the other side of the equation, however, we have seen continuing strong persistency, which drove a positive experience variance of GBP82.1 million. The other notable factor within embedded value for 2019 is the investment return variance of GBP768.6 million and that reflects the improvements in the markets over the closing position in 2018.

Based on embedded value at the end of 2019, the EEV per share is GBP13.20 and that excludes GBP385 million of unrecorded embedded value that you may recall will emerge, but which is not yet recorded in our results because of the contract boundary in our pre-2018 pension product.

Turning to capital and solvency, our position remains straightforward and strong. Our business model involves holding the specific assets required to 100% match liabilities and that eliminates market risks. We then hold a significant buffer to protect against operational risk and our policy of holding 110% of the standard Solvency II formula safely meets this requirement now and for the future. You might have observed that the Solvency II ratio has moved from 117% at the end of 2018 to 112% at the end of 2019. For the 2018 ratio, was flat it is a result of the equity dampener that kicked in during that year and reversed during 2019. If they say did not happen, the Solvency II ratio would be an 111%, which is consistent with our stated approach and also with the 2019 and indeed the 2017 positions.

Finally, I'd like to comment on the final dividend that we announced this morning. 2019 was not an easy year with domestic political uncertainty, compounded by global economic uncertainty, we were not immune and our cash result for the year tells a story of lower discretionary flows providing less funding for investments in future growth. However, our business remains in great shape. And post the UK election, 2020 is feeling different.

Activity levels are higher and we're seeing a pickup in investor confidence which is driving higher activity levels in our business. This coupled with the material flow of cash to come from our stock of gestation FUM over the medium term gave the Board the confidence to recommend a 5% increase in the final dividend. This means 3% dividend growth for the full year, notwithstanding that the payout ratio for this year remains above our targeted range. And that's it from me.

And with that, I'll hand back to Andrew.

Andrew Croft {BIO 5711239 <GO>}

Thank you, Craig. A solid performance given the difficult headwinds. I'm now going to spend some time looking at other matters of note, where we have been investing for growth and how we see the business prospects. The continued success for St. James's Place is built on establishing and maintaining long lasting, highly personal relationships with clients through our St. James's Place Partnership. Our aim is to put positive client outcomes at the heart of everything we do with our advisers helping their clients to fulfill their ambitions and aspirations through sound financial planning advice.

Our clients value the services they receive supported by the excellent retention and feedback from client surveys. We have also once again received numerous awards with two highlights being the Wealth Management Company of the Year and the Best Wealth Manager. Both awards are voted by members of the public. We are not complacent, we must respond to feedback and continue to enhance our client proposition and experience. Against the backdrop of the strong performance across major investment markets in 2019 our clients have benefited from very good returns with all of our portfolios delivering strong growth and in the main outperforming no relevant our peer group.

In early June, we took the decision to move the investment management of our segregated mandate from Woodford Investment Management to a combination of RWC and Columbia Threadneedle. This was possible as the core principle of our investment proposition is to appoint managers to manage our own segregated funds through a sub-advisory mandate rather than by investing into third-party funds. Our approach of segregated mandates enabled us to restrict investments to quoted liquid stocks and consequently our clients continue to have full access to their money.

Our proposition as you can see on the left hand of the slide includes 74 lead fund managers and 35 exclusive investment strategies in the UK retail marketplace. We also continue to make good progress in developing our responsible investing approach and build on our integration of environmental, social and governance factors into our fund managers' investment decision making. It is therefore pleasing that we were awarded the A+ rating in a latest United Nations Principles for Responsible Investment annual assessment. Further, we continue to influence province positive change elsewhere with some 90% of our investment managers now signatories to the UNPRI and we are committed to achieving 100% during the current year.

We recognize that climate change poses a risk to our business and to client outcomes. Therefore, in 2019, we became a supporter for the Taskforce for Climate-related Disclosures and have committed to implementing this across the business.

I'm now going to spend a little time covering the investments we are making for the future starting with the Partnership. As Craig has already said, 2019 was another strong year to join us, with the Partnership now at 4,271, growth of 8%. These individuals have average industry experience of 19 years with an average age of 47. This is a net increase of 317 advisers during the year through a combination of attracting experienced high quality financial advisers together with graduates from our Academies. And just pausing here for a moment, a business with 317 financial advisers would rank by number of advisers as the 12th largest financial advice business in the UK. And that's our growth in just 12 months.

We continue to invest in the Academies and there are currently 458 people in the program who are not currently included in the Partnership numbers, but who will graduate over the coming years. As a standalone business, this group of individuals would today create the UK's sixth largest advice business again by number of advisers. And in the case of the Academies, this would generate a diverse advice business with an average age of just 34 and with the gender balance of 71% male, 29% female. And that's an aside the advisers who had previously been through the London Academy were responsible for 14% of London's 2019's new business, demonstrating an excellent return on the investment we have made in prior years.

This sustained growth in the partnership provides us with confidence in our ability to both service existing clients well and attract new clients to St. James's Place. However, the increasing scale to the Partnership requires us to continue to invest in the supporting infrastructure and professional development. We now have over 900 chartered advisers across the Partnership, a figure which includes 316 fellows. The Partnership is a key differentiator for St. James's Place. So, naturally, we will continue to invest in this important area in 2020 and beyond.

The second investment to touch on is technology. 2019 has been a significant period for our multi-year back-office infrastructure project as we successfully completed the smooth migration of all our UK business to the new platform. We also completed all the remaining internal system changes required during the second half of the year and have now commenced decommissioning of the legacy system.

All our UK business is now processed on a modern technology platform, which provides us with the scalability to accommodate our growing business needs. Greater operational resilience and enables us to improve our service to clients going forward. This was a significant milestone for the business. We can now start to leverage this modern technology by increasing the system's functionality and capabilities.

At last year's full year results presentation Ian MacKenzie provided an update on technology, where we were, what we were already doing and the many digital tools available to partners and clients with a roadmap for the coming years. We are committed to investing in the right technologies and we'll be providing all advisers with access to leading-edge technology through a relationship with sales force, the number one global provider of CRM tools.

This will include access to Einstein Analytics for financial services, an artificial intelligence tool to provide additional insight to our partners. Together with Bluedoor, we will have a world-class scalable ecosystem coupled with artificial intelligence to deliver operational excellence and support advising clients into the 2020s. The cost of delivery will be funded from our usual planned growth in expenses over the next couple of years. And over time, this will become a business enabler improving service efficiency and allowing seamless integration with best of breed FinTech solutions. And as part of business as usual, we've also been and will continue to invest in cyber and data.

At the start of the new decade, we are embarking on a brand enhancement project. Whilst we see significant opportunities ahead, we can also see challenges from increased competition, disruptive technologies and societal changes. We also know that some consumers don't fully understand the value of advice and if they do, they don't always think of us as the obvious place to start.

Despite being the largest advice company in the UK, we rank low for awareness beyond our existing clients. We need to change that perception and of all of our brands to differentiate us to make us ever more relevant to society and to strengthen the brand to help drive growth. We are in the early stages of the project and we'll provide more detail later. Suffice to say, the cost of this project will be absorbed in our normal expense growth. Craig has already covered our investments in Asia and Rowan Dartington, further investment we are making today for growth tomorrow.

Let's move on to talk about our prospects. As you've heard me say many times 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. There is a structural change in the way the individuals are able to access and utilize their pensions alongside a long-term shift from annuities to income drawdown driving DC consolidation. These structural changes provide a very large opportunity for the advice sector. Meanwhile, the number of advisers in the UK is insufficient creating an advice gap, whilst at the same time there is an expected GBP1 trillion intergenerational transfer of wealth over the next decade.

The perfect environment for client-focused advice business like St. James's Place and we are well placed to address this opportunity. However, like any sectoral business, growth will not be delivered in a straight line there will be good years and lean years, we've seen this in the past and will no doubt see variations in the future. So, it makes total sense to look through short-term noise, continue to be totally focused on what we do, do this exceptionally well and continue to invest for the creation of long-term shareholder value.

And let's put this into context by returning to our historic flows for a moment. Earlier, you saw this slide showing our consistent quarterly net inflows, supported by the excellent retention of existing client investments. Whilst the strong retention is something we are quite rightly proud off, the other component is attracting new business and here you can see the same chart for gross inflows. New client investments every quarter of every year. And translating that into annual flows the position looks like this. Yes, there is variability year by year. No, we haven't recorded 15% every year. But over this 12-year period, we have achieved compound growth of 14%. As you can see we attracted new client investments throughout the cycle.

Now, why is this, well, paramount is that we are an advice business, providing holistic long-term financial advice, our partners are helping clients navigate their life journey. This isn't just an investment decision. Sure, investment returns, investment alpha, if you like, is important. But of equal if not more important is the relationship alpha and the advice alpha backed FTSE 100 company. Clients are investing for clear demonstrable purpose.

And let's simplify the advice process by thinking of our flows in two distinct categories, buckets, if you like. Firstly, business that is less sensitive to short-term uncertainty or market conditions such as clients utilizing their annual tax allowances, planning for inter-generational wealth transfer and pension consolidation. This business quite rightly continues despite market conditions. And this bucket accounts for the vast majority of our business.

The second bucket I will refer to is discretionary investment, the proceeds from the sale of an asset or business, a bonus or an inheritance as an example. Naturally, discretionary investment is sensitive to market conditions, but also particularly sensitive to uncertainty where such conditions prevail and discretionary investment may be delayed. We have seen this throughout our history during major times of uncertainty.

Looking back at 2008 to illustrate the point you can see gross flows were down 9%. Whilst we can't predict the future, we can draw comfort from the past, historically, once the uncertainty has been removed and clients have invested. This is evidenced from our experience in 2010 where we saw growth of 35%. So, we can draw optimism from the past experience and with the Parliamentary majority providing greater political stability, investor sentiment has improved. And as we have already said this morning, we are seeing this improved investor sentiment being reflected in an increase in activity across the business with new client investments seeing a return to good growth in the early part of the year.

So, to conclude, the market opportunity is very large and growing. We are the market leader, the partnership is 8% larger than this time last year, the Academy is performing really well. We have successfully completed the Bluedoor program and can start to leverage the system's capabilities. Our client proposition and advocacy remain strong. Both Asia and Rowan Dartington continue to progress, and let's not forget, we are fast approaching a material maturity of funds from gestation from which the cash result will see a boost. Uncertainties remain for the UK and there are market concerns as a result of the coronavirus. But we are encouraged by the start of the year, which together with the strength and scale of our business gives us confidence, we are well placed to continue to grow. Our business is in great shape and we look to the future with confidence hence our proposed 5% increase in the final dividend.

So, thank you for your attention and if I could ask, Craig, and Ian to join me for questions. And whilst Craig and Ian are coming up I notice Sir Mark Weinberg, our regional founder arrive. Mark, you are very welcome.

Questions And Answers

A - Andrew Croft {BIO 5711239 <GO>}

Can we start with Colm.

Q - Colm Kelly {BIO 19140684 <GO>}

Thank you very much. Colm Kelly, UBS. Three questions. The first, just on the cash margin on the average mature funds under management, which is very much in line with the guidance you gave at the half year. You're reiterating the guidance, again, for 2020, so does that imply we shouldn't see any mix effect, negative mix effect coming in for 2020, driven by the higher pension business or are there other moving parts within that that we need to consider.

The second question is just on the solvency, I think, the stability, the underlying stability of the life solvency is really a important point and if we think about the dividend capacity. So, I think, the life business paid about GBP210 million to the Group in 2019. What's been able to maintain stable solvency an above GBO110 million? So, should we see that as a rough indication of the dividend capacity of SJP, UK to upstream to the Group. And related to that, given that the shareholder dividend is GBP40 million to GBP50 million higher than that, are you confident that the other subsidiaries in the Group, namely the Unit Trust business, St. James's Place International can upstream consistent cash flow to maintain healthy dividend coverage on that cash basis.

And then just lastly on the payout ratio on IFRS, it remains high at about 180%. I appreciate that's not the primary measure of the performance of the business, but at the same time, it's not a measure that should remain at that level for a very long time. So, to what extent is that come into the discussion around the dividend each year and is there any allowance in the business plan for the IFRS payout ratio to normalize down to lower levels? Thanks.

A - Andrew Croft {BIO 5711239 <GO>}

I'll make that four questions and it's not free [ph].

A - Craig Gentle {BIO 20095126 <GO>}

It's free [ph].

A - Andrew Croft {BIO 5711239 <GO>}

But I'm going to pass them to Craig.

A - Craig Gentle {BIO 20095126 <GO>}

So, the margin on mature FUM, you're absolutely right guided to be the same. And you also absolutely right that's because the net effect of whatever the mix is doing and I see new Unit Trust and ISA business going straight in and gestation maturing have a compensating effect, which means the overall margin for 2020 is expected to be pretty much the same as it was for 2019. The Solvency II ratio, we haven't published any underlying data, but if you were to look at the capacity for the 2018 year end and think about that in the context of the 2019 dividend and then think about the capacity in 2019 in order to support the 2020 dividend, you wouldn't be too far out.

The payout ratio, a few things there, obviously -- I think, the question you're asking is around IFRS distributable profits. And we have a material stock of IFRS distributable profits and is largely because of the way the Group grew at its early years. So, if anything were challenged a long time ago was -- that was distributable profits emerging throughout the Group. But the cash wasn't being generated in order to distribute those distributable profits. So, in short, distributable profit is always a consideration is one of the things you have to think about. But that is not blocking any critical path and we continue to have a material stock.

In terms of the shape of that, a really important thing to remember is, we've always talked in terms of underlying cash. And underlying cash has excluded a very significant project called Bluedoor, which went through the IFRS accounts in the same way the every other expense goes through the IFRS accounts. So, subject to the GBP10 million that I've guided on today, you will see a sharp realignment they are perfect one because you've got that there and all sorts of other things going on in IFRS, but you will see a sharp realignment when you look at the bottom line figures.

A - Andrew Croft {BIO 5711239 <GO>}

We'll go to Jon, just behind you, if you still got the microphone, hand it back.

Q - Jon Hocking {BIO 2163183 <GO>}

Thank you. Morning. Jon Hocking, Morgan Stanley. I've got three questions, please. Firstly, starting with the credit levy, it's about 10% the cash result now. If you -- what you're seeing in terms of your adviser headcount growth. You seem to have sort of growing proportion of industry advisers. Is it fair to say that as long as you keep growing the adviser count like that, the FSCS levy is going to keep growing fast than underlying cash, is it unfair?

Second question, on the adviser productivity, over the last few periods that's flattened out a little bit. I wondered if you could sort of explain a little bit, how much of that is actually just a sort of market impact of gross flows, and how much of that is actually the increased mix of new advisers coming through the Academy?

Second question -- the final question, you mentioned the coronavirus, just wanted how well the Partnership is equipped to sort of work remotely if that becomes necessary at some point? Thank you.

A - Andrew Croft {BIO 5711239 <GO>}

Craig, do you want to figure out the levy point first?

A - Craig Gentle {BIO 20095126 <GO>}

Yeah, the -- unfortunately, the answer is -- don't think of it in terms of adviser headcount, but think of it in terms of our share of the advice market based on the current construct of FSCS. If we continue to grow and if our market share continues to grow and if the FSCS budget continues to increase then those charges will continue to go up. But is not linked to the number of advisers, it's linked to the overall value of activity and market share.

A - Andrew Croft {BIO 5711239 <GO>}

And I'll start with the coronavirus and then pass it over to Ian, now clearly our major concern around coronavirus is going to be our own people. So, you wouldn't be too surprised to know we have a business continuity team that you've met on a number of occasions have updated both the executive and the general population. Where the business is impacted at this point in time is in Asia. We have a very, very small Shanghai office, people in Shanghai are working remotely, the office is closed. And we are obviously taking logical precautions in both Hong Kong and Singapore. Although, I would say that both of those offices have had a very good start to the year in terms of flows.

In terms of the partnership.

A - Ian Gascoigne {BIO 4439479 <GO>}

Yeah, you're right, Jon. In terms of adviser productivity, the two elements there, market conditions and Academy graduates arm is productive in the first two or three years. And so that the two things together may have a flattening impact, however, at the start of this year market conditions have been a lot better and so I suspect this year we'll see a increase in average adviser productivity.

A - Andrew Croft {BIO 5711239 <GO>}

And I think just one other thing about the Academy is the average age is 34, so if you put a net present value on these advisers if they stay with us throughout their career, that's a very strong investment. And the coronavirus partners' ability to Skype and...

A - Ian Gascoigne {BIO 4439479 <GO>}

Well, absolutely, I mean, 80% of our partners work out of office anyway, they're not based in offices. Within our offices, we've taken activity and actions to have cleansing facilities and notice of what they should be doing. We're not seeing any evidence at the moment of clients not visiting offices, partners are very resilient at finding ways around, having meetings with clients either through Skype or telephone conversations. And so, at the moment, we're not seeing any evidence of any slowdown.

A - Andrew Croft {BIO 5711239 <GO>}

Maybe come over to Andrew on this side and Oliver there as well. You want to keep the microphone Andrew to pass to (inaudible) when you're done.

Q - Andy Sinclair {BIO 17749036 <GO>}

Thanks. It's Andy Sinclair from Bank of America. Three from me. Firstly, is on tax relief, which has unknowingly come back on to the budget agenda again, it sounds like, just wondered if you can remind us, how much of your pension flows are actually genuinely new to the system to the pension system each year versus just transparency and things like that, and how much tax relief you actually get on those?

Secondly, just wondering if you could talk again about the strong growth in the Partnership, can you split it out to -- into new recruits, Academy graduates versus retirements and other departures last year, just to get bit more of a picture on the 8% growth, and particularly if retention was stronger.

And thirdly, it was just on Asia and DFM, just wondering if you could give us an update on cash breakeven times there, cash breakeven types?

A - Andrew Croft {BIO 5711239 <GO>}

I still miss that cash flow...

Q - Andy Sinclair {BIO 17749036 <GO>}

Cash breakeven times for (Multiple Speakers)

A - Andrew Croft {BIO 5711239 <GO>}

Breakeven times. Breakeven.

Q - Andy Sinclair {BIO 17749036 <GO>}

So, it's yeah, cash flow breakeven.

A - Andrew Croft {BIO 5711239 <GO>}

Okay. So, I'll pick up the tax relief, I think, this is the sort of perennial question and it comes up to budget time. I don't have an exact number to give you, Andrew. But the majority is pensions consolidation most definitely and if you think about the annual allowance is now GBP40,000, you also have tapering once you earn over GBP150,000 and is also the lifetime allowance. So, many of our clients have already actually stopped contributing on a regular basis to pensions and are using other investment tools. I guess, we wait to see what happens on March 11, doesn't it, I think. So, yeah, Ian, do you want to do the sort of growth in the advisers retention?

A - Ian Gascoigne {BIO 4439479 <GO>}

Yeah. I'll [ph], so the makeup of our new joiners would be that I think the numbers are in the pack for new Academy graduates. So, you can work out what the balance is and they will be experienced advisers joining the business, give me a bit more time, I'll find the number, and maybe we can pick it up afterwards. The number of experienced advisers in the United Kingdom is pretty level or contracting in my take. And growth, for us to maintain our growth ambitions we have to kind of grow our own people. And the success of the Academy in terms of taking second career risks [ph], having a longer training period in other organizations, and then having a facility where we can put them into existing businesses because the -- for an Academy graduate starting in the business is the toughest period, but because we've got existing businesses that can provide a home for them as they go through a training period and apprenticeship period and the kind of -- and then have a mentor in development as the figures have been seen as being quite successful. And we mentioned that so 12% of our new business is from Academy graduates, 15% in London and here in the city, the city office in Lombard Street 25% of our new business flows from Academy graduates, which is -- which I think speaks for the success of the program.

Q - Andy Sinclair {BIO 17749036 <GO>}

(inaudible) just follow-up again just on retention of financial adviser during 2019 (Multiple Speakers)

A - Ian Gascoigne {BIO 4439479 <GO>}

Retention.

Q - Andy Sinclair {BIO 17749036 <GO>}

....given that we had a volatile year in the markets does that change (Multiple Speakers)

A - Ian Gascoigne {BIO 4439479 <GO>}

I've not seen any evidence that it's -- the retentions worsening. The retention is good here. I mean, we have the -- one of the other advantages of the model is that it allows pre-retirement partners to stay being active on a part-time basis having through BSP sold part of that business to some of these Academy graduates, so they are coming in. So, we've got an awful lot of partners who in an older model would have stepped off, but it's staying on to service their top clients. So, these are advisers with lots of experience, lots of growth there and maintaining relationships with our clients.

A - Andrew Croft {BIO 5711239 <GO>}

Craig, do you want to do the breakeven of (Multiple Speakers)

A - Craig Gentle {BIO 20095126 <GO>}

Yeah. They are probably quite different stories really because with Asia, I think, it's fair to say that the experience of 2019 will prompt a reassessment of the points at which net cash will emerge. I've said that in 2020, we expect to get back to where we were at the 2018 year-end. That's our ambition. Given that at the end of 2018 we were talking in terms of a five-year path to become cash neutral. My best estimate at this stage would be five years from the point at which we bring that back into line, but it's important to remember that the way we do that and what you have seen in the past and this is the same for Rowan Dartington is that we grow the adviser base which grows the income. So, a lot of investments is supported by that growth in income which takes me to the killer point really, it's sort of within our gift as to when some of this turns cash positive.

And if you take Rowan Dartington, for example, we are still committed to some pretty significant investments in that business over the next few years. We could potentially if we choose to end up with a business that's not a business of scale turn that cash positive quite quickly. But as we see things at the moment, it's succeeding and the likelihood is, If anything, we'll see further opportunities down the path to create scale and in an industry that doesn't have many businesses that have that quality, so.

A - Andrew Croft {BIO 5711239 <GO>}

Please pass over to Oliver, I think, I promise it to Oliver and Oliver keep hold of it and we pass it back to Andrew.

Q - Oliver Steel {BIO 6068696 <GO>}

Oliver Steel, Deutsche Bank. Three questions. The first is on the latest guidance for expense growth of 9% in 2020. How -- I mean, if your sales absolutely sort of sold in the current year, is that 9% going to flex upwards as your previous 10% guidance has done in the past. That's sort of 1A. 1B is, what about growth looking out beyond 2020 in that expense line.

And second question is, DB to DC transfers, the -- I mean, across the industry that sort of skills of pain that smaller advisers can't get professional indemnity cover. What are you seeing in terms of your PI cover, what are you seeing in terms of -- or what are you expecting in terms of DB to DC transfer flows in the current year relative to last year?

And then the final question is, industry competition, I'm not expecting you to give a view or an outlook on your own charges. So, I don't think there's much point in asking that question and I think you've actually won the debate that you're not actually right at the top of the charging structure anyway, but what is happening across the industry that at the upper levels of charges. What are you hearing there, what are you thinking -- how quickly are you expecting charges across the industry to come down?

A - Andrew Croft {BIO 5711239 <GO>}

Craig, you want to do the expense growth?

A - Craig Gentle {BIO 20095126 <GO>}

Yeah. I think, it's fair to say across the Executive Board and a pretty strong commitment, Oliver, to land establishment expense growth at a level of 9%. Now, does that mean that I can't envisage a set of circumstances where the right thing to do would be to spend, to invest in an opportunity or something that would drive future growth, I think, we would have to reserve that, right. But we are committed to that 9% figure, I think, that's probably the best way I can summarize it. There was a part B and I'm afraid I didn't hear part B. Sorry.

Q - Oliver Steel {BIO 6068696 <GO>}

Beyond 2020.

A - Craig Gentle {BIO 20095126 <GO>}

We haven't done detailed forecast beyond 2020. But if you think about what one of our priorities will be for the foreseeable future, we certainly saw the jaws open up in 2019. We're very conscious that the jaws opened up in 2019. And we are very committed to saying what we can do to try and reverse some of that because you get the compounding effect. We brought them down quite significantly in the second half of 2019.

That wasn't one single thing, it was lots and lots of little things, each of which had a judgment behind that. And that's the important thing. And if we -- if in our judgment it was something that could either be canceled or deferred safely without it impacting on the business, that's what we did. And once you get into the habit of doing that, I think, certainly, as a CFO, it's a habit I'd like to continue to foster.

A - Andrew Croft {BIO 5711239 <GO>}

I'll pick up the DB to DC, this has been a market that's always been there and the key driver really is going to be transfer values. But in most cases a DB transfer is almost certainly not the best thing to do. We have very strict guidelines, our partners who operate in this market are separately licensed or DB transfer business is pre-approved by our compliance people and that's pre-approved. And I think that market will always be there. In terms of professional indemnity insurance, we're aware of the issues in some of the -- in the market, we don't see that as an opportunity, we will carry on sticking with what we do.

I'm not aware, that our Insurance has increased at all, but I'm just not aware and Craig is not aware either. So if it increase, we would have sort of known. In terms of industry competition we are probably best placed to talk about what we see in the face to face advice market rather than the sort of self serve DIY market, but what you do see is other entrants coming into the -- what that's called the DIY market. Do you want to talk about sort of advice charges that we see out there as a whole?

A - Ian Gascoigne {BIO 4439479 <GO>}

Yeah, I think, the -- well, thanks all of you for acknowledging that we are -- we're not very expensive...

A - Andrew Croft {BIO 5711239 <GO>}

Yes, thank you.

A - Ian Gascoigne {BIO 4439479 <GO>}

(Multiple Speakers) to acknowledge that. Thanks. I think, the debate over charges is more about it should be a debate overvalued and were driven into a charge related debate when actually what the clients are looking for are for the investment alpha, the relationship alpha, the advice alpha, what do they get out of the relationship with this person overall the rest of the life and what they're trying to achieve in that life. But doesn't necessarily mean that you can over charge, obviously, you have to be competitive, which we are. But what the industry seems, there is obsession with a few bps here and a few bps there, compared with what the client -- the value the client gets out, the long-term relationship with a partner who is in a sustainable business working for a sustainable that's backed by the guarantee seems to seems to support client satisfaction and doing business with the partners. So, there is margin pressure, there is margin pressure in every industry all the time and we are aware of that and partners do have the opportunity to flex charges with clients if so be it.

A - Andrew Croft {BIO 5711239 <GO>}

If you once pass it back to Andrew.

Q - Andrew Crean {BIO 16513202 <GO>}

Good morning. It's Andrew Crean for Autonomous. Three questions, if I can.

A - Andrew Croft {BIO 5711239 <GO>}

Why does everyone have three questions (Multiple Speakers)

Q - Andrew Crean {BIO 16513202 <GO>}

Given your guidance, Craig, I think your overall expenses going to grow 8% this year, the total, not just the establishment expenses. There is a set of circumstances under which your gross flows, which represent the quarter of your revenues might be flat again if coronavirus chips into a bear market, which would push your, I suspect would push your payout ratio above 100%. Are you comfortable with that? What would be the dividend policy in that downside scenario?

Secondly, in terms of your gross flow guidance, you've always said 15% to 20%, but I think since 2007 it's 10% and [ph] 14%, is there any change to that long-term guidance. And do you think that this year is going to hit your long-term guidance.

And then finally, if I could there was a figure, which I think, Ian, you gave at a meeting privately, which is that the initial costs were not 5%, but actually 3% because partners actually lowered the charge, negotiated lower charge, is that still the case?

A - Ian Gascoigne {BIO 4439479 <GO>}

I think, well, it's good for me to clarify that. And that was in relation to our ISA and Unit Trust business in relation to the 5% bit of a spread and the average that was actually charged by partners at point of sale was 2.9%. So, that was...

Q - Andrew Crean {BIO 16513202 <GO>}

And does that cover across your business?

A - Ian Gascoigne {BIO 4439479 <GO>}

That was in relation to the Unit Trust and ISA business.

Q - Andrew Crean {BIO 16513202 <GO>}

But I was asking across the business, across pensions and the life.

A - Ian Gascoigne {BIO 4439479 <GO>}

I've got none. I don't think that's across the business that I haven't got the data in my head, but I do know that in terms of the Unit Trust and ISA business for the period mentioned, the average charge was 2.9%.

A - Andrew Croft {BIO 5711239 <GO>}

Okay. On the 15% to 20%, and I'll now hand over to Craig for the dividend. I don't want to get drawn into specific year, part of my presentation was that you get good years and you can have some more difficult years. The 14%, by the way, and I did think about do I want to put up 14% when it's 15% type thing, but that's on the back of two difficult years. So, that's just the normal variability going in there. And what we aim to do is to carry on growing the Partnership, carry on helping the Partnership improve their efficiency. And, therefore, long term we should be able to continue to do what we've always done, but it isn't going to be in a straight line and that's the problem. Okay.

Craig, you want to pick up that?

A - Craig Gentle {BIO 20095126 <GO>}

Yeah.

A - Andrew Croft {BIO 5711239 <GO>}

Give them all [ph].

A - Craig Gentle {BIO 20095126 <GO>}

I'll answer the question by starting where we were back in July when we were having a similar conversation and the question was, would you be prepared to see the payout ratio go up at the end of the year if certain things happen. And the answer at that time was, yes, we would, but it would depend on the circumstances. And the question of whether you're happy for a payout ratio to move in any direction will always depend on the circumstances, that prevailed at the time you make that decision.

You're right. You could theoretically end up in a situation where gross flows full and remained flat, but the one thing that isn't going to change is the flow of cash from that GBP40 billion of gestation. So, there will always be a significant -- because of the business model, there will always be a significant feeder into the cash result.

But the question as to whether a payout ratio can change, if you remember, back in July, we said we are very confident in the business, but if you think about what we had at the time we had political instability, we had a massive migration to complete during the course of the second half which carries risk. And we had just reported flows that were down. We still have the confidence, but they were the circumstances.

You wind the clock forward now and as we've said in the presentations, there is, you might -- people might not like the politics, but there is political stability compared to where we were. We've seen a turn in the business and we still got the funds in gestation and sentiment is higher. There the circumstances at the moment. If I project any kind of model forward and any impact that that model can have on our cash result, I have to give the same answer, it will depend on how we feel about the business.

A - Andrew Croft {BIO 5711239 <GO>}

Just pass it over (inaudible). Yeah, and then pass it forward to Barrie.

Q - Charlie Beeching {BIO 21296314 <GO>}

Thanks. It's Charlie Beeching from KBW. Just pertaining to pension transfer business, I believe the PRAs and the FCAs scheduled to publish on charging by the end of the quarter. Just do you have any further thoughts on this, please? And secondly on sales force, how much do you expect this to cost to rollout and over what time period? Thank you.

A - Andrew Croft {BIO 5711239 <GO>}

Sure. I'll pick up the pension transfer, you're right, there is a paper due imminently. We are clearly don't know what that paper is going to say. We think banning contingent charging will sort of limit access to advice, so we think that's not -- that would be a shame. In terms of our own business, what happens is that you would go into something full advice and you would have to pay whether or not you do the transfer or not. And because of the high hurdles of where we operate with significant transfer values and other assets, the majority would go through full advice and the advice would still be to transfer. But there is no doubt that there will be cases, let's call a margin of cases where the decision isn't taken not to go through full advice, because I don't want to pay a charge if the answer is going to be no. And, sorry, the second one, sales force.

A - Craig Gentle {BIO 20095126 <GO>}

Yeah. The way to look at sales force, firstly and to be very clear, the sales force will not result in a new below the line charge called Bluedoor (inaudible). It's fundamentally different, it's a significant investment within the business, but it's all budgeted as part of our normal ongoing investments in technology. You'll -- you won't see it, but you'll kind of see it in operational developments where I guided that the increase in operational developments will be slightly higher than 10% and that accommodates the path of sales force that will be charged to that line. So, there won't be any new below the line disclosures for sales force. And although it is significant, it pales into insignificance compared to the Bluedoor journey that we've been on, it's important for the business, but it is no where near of that scale.

Q - Charlie Beeching {BIO 21296314 <GO>}

Do you have an idea in terms of millions of pounds?

A - Craig Gentle {BIO 20095126 <GO>}

Well, I don't know if any technology that costs less than millions of pounds. I mean, we're not disclosing the full sum and I'm sure there is some commercial sensitivity around that. But what I will say is that it is all accommodated in the guidance that I've given today and that you won't see a big unexpected lump.

A - Andrew Croft {BIO 5711239 <GO>}

You just pass it forward to Barrie. And then we will see some questions a bit further back. Eye sight is not so good that far back, so.

Q - Barrie Cornes {BIO 2389115 <GO>}

Good morning. It's Barrie Cornes, Panmure Gordon. Just really one question, you came into sort of a lot of criticism concerning remuneration of the Partnership during the year and that seems to have completely reversed from the same quarters. Just wondered, how is the Partnership feeling about remuneration going forward, do they know what the new structure will be and what's their feeling?

A - Andrew Croft {BIO 5711239 <GO>}

I think, so it's interesting, I was with the group of partners, I mean, yesterday in Edinburgh and we have this conversation. I think the second half of last year the Partnership was feeling pretty morale wounded, I would say, but bittersweet [ph] because of the media and the political environment and the uncertainty of the Brexit. They have come back this year with a real spring in their step. They are absolutely aligned with the desire for us to have a greater level of clients metrics that can have a positive or negative impact on their remuneration.

There is an immense desire at the moment for more detail and I appreciate that, and I understand where they are. We have a group of the executives working on this with a view to being able to provide that detail at the half year. There is a big sophisticated businesses running employee and lots of people with lots of revenue decisions. And so anything that impacts on revenue has to be well thought through and right for them, right for the clients and right for the business.

So, it's not a quick fix. But the sense of direction has been made quite clear, and interestingly, we talk about sales force and sales force's ability to record in far greater detail, client interactions will help the metrics to do with this project. The Partnership are in a good place, I feel at the moment, certainly yesterday in the meetings, I've had, it's been a great start to the year.

Q - Barrie Cornes {BIO 2389115 <GO>}

So, there's no sense of (inaudible) tools ahead of the clarification of putting business into H2?

A - Andrew Croft {BIO 5711239 <GO>}

No, no. That's no, not at all, not at all. Quite the opposite. I mean, partners...

A - Craig Gentle {BIO 20095126 <GO>}

And I think, we said we've had a good start to the year as well. Just to clarify that.

Q - Barrie Cornes {BIO 2389115 <GO>}

Yeah. Thank you.

A - Andrew Croft {BIO 5711239 <GO>}

(inaudible) I think it's a conjoining, I can't quite see, because the lights are in my eyes.

Q - Johnny Vo {BIO 5509843 <GO>}

It's Johnny Vo from Goldman Sachs. Craig, I think, this morning you spoke about, you said that the Group's solvency is likely to decline. So, I was just wondering, given that the life solvency is quite low and probably impacted by interest rates further given where interest rates are, if the dividend from the life company is lower than expected are you going to subsidize the dividend from cash in your holding company?

The second question just relates to provisioning and the coverage ratio, the NPLs what sort of coverage ratio should we expect from the NPLs that are appearing on your balance sheet. And the third question is just in terms of the relatively poor performance of some of these loans on balance sheet, underperforming loans have increased, probably about 70%. And is that going to impact any of your potential securitization going forward and your ability to move these loans off balance sheet? Thank you.

A - Craig Gentle {BIO 20095126 <GO>}

So, solvency in the life company, I probably disagree with the word low, we have an approach, which means we hold an enormous amounts of capital for operational risk. As I mentioned earlier, we -- our business model means we don't face market risk, which was usually needs to be captured within that sort of capital calculation. And the idea that 110% or 111% or 112% is low is not the way to look at that. What we have is a chosen level of capital and our chosen level of capital is equal to 110% of the standard formula. So, it's not something that where we're running down, it's a number that we regard as safe appropriate and sustainable.

And then, of course, in any business, once you've chosen your level of appetite for capital, that will have an influence on distributions, dividends, expenses and everything else. So, I don't think there's anything more to say really on capital.

On provisioning coverage ratios, am I right in thinking you're referring to partner lending? I mean, the reality is, on a book of GBP400-and-something-million, the level of bad debt experience is borderline negligible and the reason for that is that we generate the flows on our systems that repay the loans. We're not even like a mortgage business where we are relying on somebody to make a decision from their own bank account. We generate that revenue and we put the transaction through to the loan. So, we've got probably 28 years of experience...

Q - Johnny Vo {BIO 5509843 <GO>}

But the NPL is a 200 bps, I mean, if this isn't [ph] mortgage book, you will be at 20 bps, so, and these are growing.

A - Craig Gentle {BIO 20095126 <GO>}

But then if you look to the mortgage book, I can think of two mortgage cycles you have been through over the last x number of years that would have result in crystallized losses and you won't see that in our book.

Q - Johnny Vo {BIO 5509843 <GO>}

But what is causing these lines to underperform?

A - Craig Gentle {BIO 20095126 <GO>}

They are so negligible, I wouldn't -- they -- a classic example that these happen very, very infrequently, you could end up in the situation where we park company with an adviser under difficult circumstances. And if we see that that's the best way to part company, we will take a loss on the lending. But it -- we got to put these in context, they are tiny numbers in the scale of loan book that we have. And I would say the same thing for the underperforming. Underperforming is an IFRS heading and I'm afraid it's a little bit alarmist. Let me give you an example of something that would become underperforming, let's imagine, I'm a partner, I have a loan, I'll have a very long credit history with St. James's Place, I might approach and say, could I have a repayment holiday for six months, because I want to do something -- it could be something like a divorce even.

I need to work my way through something, can I have a repayment holiday? If this happens in such a way that that loan then becomes operational other than in accordance with the original terms and conditions, we are required to badge it as underperforming. That does not mean it's impaired because the only reason we're prepared to make that decision is because of the quality of the security. So, we hold pretty much every single piece of information and every right that a lender would dream of, which is why the numbers that we're looking at is so small. So, the loss is on our book, probably as low as you will ever see in a lending book.

A - Andrew Croft {BIO 5711239 <GO>}

I think, I'll just come in back up there, I was surprised by the question, so I just wasn't seeing that. And having been a CFO before, we have a very, very low write-off, it is secured on the partners' business and their own personal assets. But there will be times where can I have a repayment holiday, please, we look at the business and say, yes, of course. And so I wasn't expecting that question at all.

Could we just pass over to Ashik and may call out the last question, we are coming up to quarter two.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Hi. Ashik Musaddi from JP Morgan. Just couple of question. Is there any update on the regulatory front, especially driven there is a lot of noise about early retirement charges. Have you heard anything in past six months, is there a process going on to review those charges again. I mean, just trying to get some sense if there is anything going on in the background, which we should be aware of.

Secondly, on partners, I mean, clearly, there is a bit of increased competition from adviser recruitment, I think, from some of your new competitors. Have you seen any unexpected dislocation in terms of your hiring approach or people leaving because of someone paying extra or something like that. So, any thoughts on that or is it still business as usual on your Partnership side? Thank you.

A - Andrew Croft {BIO 5711239 <GO>}

Ian, do you want to do the Partnership side?

A - Ian Gascoigne {BIO 4439479 <GO>}

Yeah. I think, it's business as usual, I don't -- we've not seen any dislocation, there is potential occasionally a bit more competition for an adviser who is thinking of moving, but the proposition is strong and we've got a good recruitment team and people have got choice. I'm not aware recruitment flows are strong and retention is strong, so at the moment it's business as usual.

A - Craig Gentle {BIO 20095126 <GO>}

And we're not in any active conversations with the regulator around charging structures or anything like that.

A - Andrew Croft {BIO 5711239 <GO>}

Should we -- we are just coming up to quarter to 12, so should we just draw a close that you know where to find us. And you do very well at doing that but thank you very much again for coming this morning. I know it's been a busy day in the markets, as Nick [ph] called, Super Thursday or something today with all the companies reporting. So, thank you very much.