Q4 2014 Earnings Call

Company Participants

- Andrew Martin Croft
- David Charles Bellamy
- David John Lamb
- Iain Rayner

Other Participants

- Alan G. Devlin
- Andrew J. Sinclair
- Ashik Musaddi
- Barrie Cornes
- Ben E. Bathurst
- Jon M. Hocking
- Oliver G. Steel
- Paul C. De'Ath
- Ravi Tanna

MANAGEMENT DISCUSSION SECTION

David Charles Bellamy {BIO 14025555 <GO>}

A little bit ahead of ourselves, ladies and gentlemen. So, we're just waiting a minute so that we start formally at 10:45 when the cameras and people presumably will tune into the live video. So, just bear with us for 30 seconds. Please carry on talking amongst yourselves. I'm not going to, I don't have any jokes to tell or any of that stuff. I'm just standing up here looking, whatever. You can make it up. How do you tread water like this? Yeah. There. One more coming.

Ready to get to, we got one more? Okay. Okay.

Right. Good morning, ladies and gentlemen, and welcome to our 2014 annual results presentation. Slightly different schedule this morning. I'm going to let Andy kicks things off. He'll do the business review resume of 2014, and then take us into our financials. We're introducing a new face today, Iain Rayner. Iain has been with us for seven years now, and is our commercial director. And I've asked Ian to come up and just talk a little bit about the opportunities as we see them in Asia and the Middle East. So, just give a little bit of background as to why we're in those jurisdictions. And then I'll come up and finish off and talk about where we are today and how we see the future. And we'll have our usual Q&A session with Ian Gascoigne. And David Lamb will join Andy and I up here on stage to take any questions, okay. So that's the way the session will unfold. And without further ado, Andrew Croft. Thank you.

Andrew Martin Croft {BIO 5711239 <GO>}

Thank you, David. Good morning, everyone. Following the strong performance to the business over a number of years, I'm pleased to report q continuation of this trend in 2014. In January we provided an update on our 2014 new business in funds under management, so before looking at the profit, a quick recap on these numbers.

Total single investments at £7.8 billion, were up 18% over the year. And as you can see on the current slide, the major contributor was ISA and unit trust business, which was up 36% on the year. We expect the increase in last July's ISA limit to continue to be beneficial going forward.

Retention continues to be very strong and has marginally improved to 96%, giving a net inflow of £5.1 billion up 20%. This net inflow, together with a positive investment return resulted in funds under management at the end of 2014, of £52 billion, up 17% to a new record.

These strong new business in funds under management figures are a key driver to the financial result to the year as we will see in a moment. We also gave an update on the Partnership numbers, which ended the year at 2,132, 9% higher and included for the first time our 51 new partners in Asia. Including the number of advisers, the total number of diploma-qualified individuals at the end of 2014 was 2,835, a growth of 10% for the year. Whilst this investment in new advisors translates into an expense today, it is a major lead indicator for future new business. Therefore, this 10% growth bodes well for 2015 and future years.

So moving on to the financial results starting, as usual, with a familiar breakdown of the EEV numbers. The new business profit for the year was £373.1 million compared to £327.2 million, an increase of 14% reflecting the higher new business. The expected profit from the unwind as a discount rate was £182 million, up from the £112.1 million in 2013. The increase reflects both the greater opening value of in-force and the higher discount rate at the start of that year.

There was a significant positive experience variance of £78.5 million compared with the £47.4 million positive for the prior year. Both years benefited from better retention experience than the long-term assumption, particularly so in the case of pensions business. In addition, in both years, we have been able to recognize value in respect of historic capital losses.

In 2013, we identified a capital loss in a legacy company we inherited as part of the old SJP group. Since we were able to offset this capital loss against future capital gains, we recognized a pre-tax value of £28.6 million. And during 2014, we identified another legacy company with a capital loss. And again, as we will be able to offset this loss against future capital gains, we will recognize a further pre-tax value of £42.2 million.

We will continue our review of the remaining handful of legacy companies during 2015, but it is too early to say if there are any further capital losses at this time.

There was a small positive operating assumption change in both years and the investment income in 2014 was £8.1 million compared with £5.2 million last year.

Distribution contributed a negative £10.9 million during 2014, reflecting the higher expenses associated with that strong increase in adviser recruitment I mentioned at the start. The higher FSCS levy and £1.7 million negative contribution from the recently acquired Henley Group as we begin to invest in the growth of this venture.

Other contributed a loss of £37.4 million, which includes the back office infrastructure spend of £11.9 million and the share option cost of £11.4 million with the balance being corporate overheads and development spend. Taking all these items into account, the operating profit for the year, at £596.4 million, was up 29% compared with 2013.

Now, during 2014, the investment return of our funds exceeded the EEV assumption, resulting in a positive investment variance of £80.2 million. By comparison, the very strong market performance in 2013 resulted in a much larger variance of £344.2 million in that year. Both years reflect not only the underlying stock market growth, but also the relative outperformance of our funds compared to market indices.

Finally, there was a small negative economic assumption change for the year compared with a small positive one for 2013. And therefore, the total pre-tax profit was £669.6 million and the EEV net asset value per share at the end of 2014 was £6.579, an increase of 14%. There has been a steady increase in the net asset value per share year-by-year with the current slide showing the last five years growth of 86% over the period.

So, now turning to the IFRS result. As you are aware, the IFRS result includes intangible adjustments in respect to DAC, deferred acquisition costs; DIR, deferred income reserved and PVIF purchase value of in-force. The movements in these intangible assets do not reflect the underlying operating performance in a particular year, therefore, to further aid investor understanding, we've added an underlying profit measure, which excludes the movements in these intangibles. Hopefully, you will find this additional disclosure helpful.

The current slide shows the underlying profit together with the adjustments to the profit before shareholder tax. And it's worth noting that the board regards the underlying profit as the most appropriate IFRS measure when considering the operating performance during a reporting period. As you can see, the underlying pre-tax profit for the year was £173.6 million compared with £187.2 million for the prior year. But, of course, the prior year included £21.4 million one-off benefit relating to the reinsurance transaction in that year, whilst the investment in the back office infrastructure in 2014 was £11.9 million compared with £5 million for the prior year. Consequently, a better like-for-like comparison is an operating profit of £185.5 million compared with £170.8 million.

Incidentally, the back-office infrastructure program is progressing well. In 2014, the initial phase or the unification of our two major back-office teams in Craigforth and Essex, coming together under the management of IFDS. The integrated technology platform that will support these teams is also well advanced and we will begin to migrate our business to the platform later in 2015. We therefore expect to see some of the benefits from this important investment beginning to crystallize in 2016.

And looking briefly at the post-tax IFRS figures, the 2014 underlying profit post-tax was £180.9 million compared with £175.4 million for last year. Both years include the benefit of the capital losses mentioned earlier, whilst 2013 also benefited from the corporate tax rate change in that year.

The derivation of the underlying profit for the last five years can be found on our Investor Relations website.

I remain firmly of the view that when assessing St. James's Place, investors should focus on both the underlying cash from which the dividend will be paid. And the EEV result, which provides a net present value of expected future cash returns. However, I do recognize the importance of IFRS within the investment community, and for those who wish to review the group on this basis, I encourage you, strongly encourage you to use this new underlying profit measure which better reflects the operating performance of the business rather than the unwind of some historic accounting. And as noted earlier, the board regards this underlying profit as the most appropriate measure when considering the operating performance of the business.

So now, turning to cash, which, as usual, is presented on a post-tax basis. The total cash result was £165.1 million compared with £168.8 million for 2013. And adjusting for the post-tax impacts of the 2013 one-off benefit from the reinsurance transaction and in both years the cost of the back office infrastructure investment, together with other positive and negative variance, gives an underlying cash result of £173.8 million, an increase of 24%.

This increase is a combination of higher net income from funds under management, which was 18% higher than the corresponding period, a £16.7 million benefit from the current year utilization of those capital losses I mentioned earlier, higher expenses from the investment into the business, and other miscellaneous positives and negatives. And in a further addition to the cash disclosure, we are also showing an underlying cash earnings per share. And you can see now the progression over the last five years. Consistent growth year-on-year and compound growth of 41% over this period.

Looking forward, we fully expect the underlying cash result to continue to grow. Now, why are we so confident about this assessment? Well, firstly, as you recall, there's a proportion of new business which has an early withdrawal charge, and this will unwind during its first six years. Consequently, this business does not make a meaningful contribution to the cash result until year seven.

We disclosed that of the £52 billion of existing funds under management, an estimated £16.1 billion is within its first six years, and therefore not contributing to the current cash result. And as requested by a numbers of investors, this disclosure has been enhanced to reflect the current value rather than the value of the original funds. And if all this £16.1 billion was now contributing to the annual cash result, there would be a benefit of an additional £123.9 million post-tax.

Secondly, we also expect to continue to receive a cash benefit from the remaining £50.7 million value associated with the capital losses as it gets utilized in future years. We would expect an annual benefit of some £5 million to £6 million rather than a higher amount of £16.7 million received in 2014. Thirdly, as bank base rates start to increase, the current £8 million of interest we receive on surplus assets will correspondingly rise. And, of course finally, should stock markets increase, funds under management will increase and our net income will grow. So in summary, the outlook for the cash result looks promising.

Now, finally, let's look at the dividend. The current slide shows the progression of the dividend over the four years 2010 to 2013, consistent strong growth and the payout ratios noted at the bottom of the slide. At the half year, we increased the interim dividend by 40%, and indicated that the full-year dividend would be increased by a similar amount.

As noted earlier, we continue to see an increasing cash emergence with the underlying cash result up 24%. And given the strong growth, and our previous comments on increase in the payout ratio, I'm delighted to announce that we've proposed to increase the final dividend by 50% giving a full year dividend growth of 46%. This gives a full year payout of 70% compared with the 59% in 2013.

And looking forward, it's worth remembering that we have a very strong prudently held capital base, which has proven itself to be resilient throughout the financial crisis. There is no significant balance sheet exposure to asset valuations, longevity, morbidity, mortality or credit risk. We have a maturing business together with maturing funds under management, which continue to provide a growing cash result. We hold a dividend reserve how to maintain dividend payments in more difficult times. And we will continue to invest in the business. And given all those facts, we regard 75% to maybe an appropriate medium-term payout ratio. And we will therefore increase the payout ratio to this level in future years.

So, that's me finished. And I hope you agree with my opening remarks that 2014 has been another strong year for the group. Thank you.

David Charles Bellamy {BIO 14025555 <GO>}

Thank you, Andy. So, yeah, I hope you do agree. Some strong results. That's very much driven by that strong performance of the business in 2014. If you read the CEO's statement that accompanies the results, and in particular, the Chairman's statement that Sarah put together, you'll have seen in the Chairman's statement that we talk about the enlarging of our executive committee. At the moment, or up until recently, Andy Croft, David Lamb, Ian Gascoigne and myself have formed the executive committee for the organization. And one of the five things for me is the stability of that management team. I think probably one of the most stable management team there is the FTSE. However, it was beholding on us to lower the average age, and we thought that was appropriate.

So, we've promoted four people to come and join us on the executive board, Jonathan McMahon, our Group Risk Director; Mike Gravestock, who's heading up the Asia initiatives; Ian MacKenzie, our Business Development Director; and our next speaker Iain Rayner, who is our Commercial Director and is going to speak now a little about the opportunities we see in Asia and the Middle East.

So, ladies and gentlemen, Iain Rayner.

Iain Rayner {BIO 20875747 <GO>}

Good morning, everyone. I'm going to give you a brief overview of the opportunity that we see for St. James's Place in Asia and the Middle East. I'll concentrate on our analysis of this opportunity and then David, in his presentation, will provide an update on our progress so far. We believe that there's an opportunity to take our business model. St. James's Place partners providing face-to-face financial planning and wealth management advice to different geographies.

When we started thinking about doing what we do, but in different geographies, we were very conscious that St. James's Place is a British brand built on largely British partners, serving largely British clients. There are over 5 million UK citizens living abroad today, and of course many of them fit our focus on clients with between £50,000 and £5 million sterling on investable assets.

Most of those UK expats live in near the Anglo-Saxon countries such as Australia, the United States, Canada and New Zealand, or the Eurozone countries such as Spain, France and Portugal. But places like Australia and the U.S. are well- served matured markets for financial services. And a large number of the UK expats in the Eurozone countries are often in asset de-accumulation phases of their lives.

There are some interesting opportunities in those markets, but we have focused on Asia and the Middle East as areas of particular interest. UK expats in these markets are most often in assets accumulation phases of their lives and are concerned about retirement saving. They're bankers, lawyers, accountants in Hong Kong, Singapore, Shanghai and Dubai. They're auto execs from the West Midlands working in China or they're oil and gas execs from Aberdeen working across the Gulf.

We saw a market that still offered what, whereby current UK standards, high upfront commission, long-term contractual savings products. Whilst there were many good expat focused financial advisors operating in these markets, the overall reputation of the sector is probably less than it should be. Regulators in Hong Kong, Singapore and the UAE are pursuing professionalization agendas in part influenced by our own RDR, and we see this as creating an opportunity for St. James's Place.

Further still, these markets in Asia and the Middle East are forecast have very strong medium- to long-term growth prospects with beyond our immediate expat focus, large numbers of local emerging mass affluent and high net worth individuals. We see a gap between the private banks pursuing the ultra-high net worth clients and particularly in Asia, the life insurers and banks targeting the mainstream populations.

In 2012, The Henley Group, a UK expat focused IFA with offices in Hong Kong, Singapore and Shanghai established its business to handle expats returning to the UK as a St. James's Place partner practice. This coincided with the beginning of our thinking on international growth opportunities. And as our relationship developed, we felt there was a strong cultural alignment between The Henley Group and St. James's Place and that is always something that we prioritize when we're looking for people that we could work with.

We entered discussions with Antony Michell, the owner of The Henley Group who's joined St. James's Place to help drive our international expansion in early 2013 and reached an agreement later that year. We received regulatory approval to complete the acquisition in mid-2014. We estimate the acquisition of Henley has given us two to three years head start versus a greenfield startup and considerably reduced our execution risks.

Henley had, and still has, 50 advisers who have joined St. James's Place partnership, all the key distribution licenses, and very importantly, a considerable amount of experience operating in these key markets. It also advises on just under £0.5 billion of client funds, which we don't include in our core funds under management.

Now I'm going to talk briefly about each of the key markets, let's start with Hong Kong, which is the most established of the Henley offices. There are around 40,000 UK expats in Hong Kong with numbers forecast to grow at 7% per annum compound to 2020. We estimate that they will control £9 billion of investible assets by 2020. Hong Kong is also home to similar size of expat populations from places like Australia and other of the European countries, and people from those geographies make up some of the existing Henley client base and represents other opportunities for us. Expats in Hong Kong are also wealthy. 55% of them earn over $150,000 per annum.

Moving beyond the expat population, there are a total of 1.6 million individuals in Hong Kong with over $100,000 of investible assets, with numbers of forecast to rise 30% over the next five years. Any by 2020, we forecast they will control $612 billion on investible assets. Anyone who has walked through the designer arcades of Hong Kong will also understand the increasing influence there of people from Mainland China. And there's also significant Hong Kong Chinese population in the UK. And we sense an increasing demand for joined up family, cross-border financial planning and wealth management services, a trend across a number of international expat groups.

Above all this, there is ongoing regulatory change driving a significant market shake-up in Hong Kong. The regulators have clamped down on the sale of many of the traditional contractual savings products, which have largely fed the expat financial advice industry. They also are much more discriminating in terms of who's operating there. These are both initiatives that we're hugely supportive of, and we believe they will support the development of St. James's Place in Hong Kong.

Moving to Singapore, which has a similar size UK expat population to Hong Kong around 40,000, which we estimate to grow at around 10% per annum compound to 2020. And we forecast they will control £10 billion of investible assets by 2020. Again, like Hong Kong, Singapore has rather large expat populations including Australians and non-resident Indians. And Singapore is, in many ways, a city with a diverse international population. It's certainly becoming the Asian wealth management hub. Expats in Singapore are, if anything, even wealthier than their Hong Kong equivalents, 43% of them earn more than $250,000 per annum.

Today, over 1 million individuals in Singapore have over $120,000 of investable assets and that's forecasted to rise by 46% over the next five years to something like $413 billion. The regulator, the Monetary Authority of Singapore, is also driving professional standards in financial advice through its fair review, which is again creating a market opportunity.

On Shanghai, Shanghai is a newer, younger office than either Hong Kong and Singapore. Again, there are around 40,000 UK expats in China of whom believe 25% or so actually live in Shanghai. And these are bankers, lawyers and accountants that we also find in Hong Kong and Singapore, but also, interestingly, the automotive and supply chain execs working around China.

Our business in Shanghai is still at an early stage and is entirely focused on expats. However, we may, and I have to emphasize here, we may, in future consider joint venture with a local partner to provide St. James's Place wealth management services to the local Chinese population. It's certainly on the list of things that we will look at over the next few years.

Moving to the Gulf. We also see an opportunity for St. James's Place in the United Arab Emirates and the Gulf, and we're in discussions, as David said, with the relevant authorities in Abu Dhabi and Dubai. The UAE is already ranked as the top tier wealth management hub in the 21st century along with London, Singapore and others, and it's ideally situated on the crossroads within Europe and Asia, Russia and Africa. The strategic vision and execution against that vision in the UAE is very impressive. The UAE regulators are also focused on increasing professionalism with changes at least in part modeled on the UK system, and we've had several positive and warm conversations with them. If we are welcome by the relevant authorities, then we believe St. James's Place can become a large player in helping the UAE become the regional wealth management hub.

There are at least 100,000 UK expats and something like 500 UK expats focused financial advisors in the UAE. The short-term opportunity for us is, if anything, stronger than the Asian cities. There are clearly other significant expat groups in the UAE, not least, again, non-resident Indians who make up a significant percentage of the population at all levels. There are also increasing trends to support financial planning and provision for expat workers in the UAE. Liquid assets amongst high net worth and mass affluent individuals in the Gulf, are forecast to grow by 45% over the next five years, which is double the estimated UK growth rate. And beyond the UAE, there are other potential Gulf state opportunities that we'd like to look at such as Qatar.

I hope that's given you a sense of the international opportunities that we see for St. James's Place. Our clients not least those who live and work around here in the City of London are increasingly internationally mobile. We believe there's an opportunity to professionalize financial advisory and wealth management services offered to UK expats, and, in time, offer our international investment management approach to other expat groups and segments of the local populations who are interested in such service from a trusted and respected British brand.

In pursuing this strategy, we will focus on advisor recruitment as we do in the UK because we know that clients follow their advisors. Our strategy is to position St. James's Place in many of what we see as the key 21st century wealth management hubs, including London, Singapore, Hong Kong, Shanghai and Dubai. We do see the international opportunity as having the potential to make a material contribution to the continued growth of St. James's Place into the 2020s.

Thank you very much.

David John Lamb {BIO 15016583 <GO>}

Thank you, Iain. I hope that background on the opportunities and rationale for our venture into the Far and Middle East expat markets was useful. Having visited Hong Kong and Singapore two weeks ago to formerly long-term presence there I'm very optimistic about the opportunities. Our three offices are fully branded and Singapore and Shanghai are pretty much now fully operational. Hong Kong will take a little longer as there are few more product approval processes to attend to with the Hong Kong regulators. But, as Iain said, given our scale in the UK it will take some time for our overseas operations to make a material contributions to the group, but I have no doubt that in time they will.

It was also evident from my visit that our timing seems about right, as a local journalist to attend on one our launches so aptly put it. And that's fundamentally because what we're doing there is essentially the same as what we're doing I the UK, which is the provision of face-to-face advice, based on long-term relationships delivering reliable advice supported by a distinct investment approach that adds value.

And clearly, the ultimate determinants of the value we add will be clients, and whilst we are in no way complacent, I think we can take some comfort from the consistency of some of our key performance indicators and specifically, as Andy mentioned earlier, the retention of our existing funds under management, although the 95% per annum in recent years.

And the fact that historically around 50% of our new business has come from existing clients with a further 40% from referrals and introductions from them. However, as I said, we aren't complacent here and we seek regular feedback from our clients to validate the position. Most of you will know that we use an external firm to canvass views from our clients about our service and that called Ledbury Research.

Ledbury also compared our results through central group of competitor companies, and here you can see that our results compare very favorably on just about all the key measures. We take client feedback very seriously, which is why every year we get every client the opportunity to give us feedback via an annual questionnaire that accompanies their wealth account.

We've done that now for the last four years and the most recent wealth accounts and questionnaires were sent out just a few weeks ago. Clients have returned their questionnaires very promptly and in the last few weeks, we've been collating the results, which I thought I'd share with you today. We're very fortunate to have a very engaged client community so that over 43,000 duly completed their questionnaire and return it to us. Of that 43,000, 98% likely are wealth account and the information it provides, they find it useful.

When asked about the nature of their relationship with their partner, 70% said they feel more confident about their financial future as a result. And similarly, 70% feel better informed about their finances than they would otherwise. In terms of contact with their partner, 77% of them have met their partner in the last 12 months. And this figure increases to 90% if you extend that to the two years. Similarly, 90% say the frequency meets or exceeds their expectations with just 5% saying they'd like to see their partner more frequently.

When asked if the St. James's Place proposition provides value for money, 85% of those 43,000 people said it was either good or excellent value for money. 14% said it was reasonable value and just 1% said it was poor value. Clearly, I would rather that 1% were 0%, but I hope you agree given the focus today on charges and fees, these are excellent results in terms of the value proposition that we provide. The ultimate test of how our clients feel about what we do for them is in their preparedness to refer others to us. So, the answer to the question, knowing everything you know about us in St. James's Place proposition, would you recommend it to others? Is particularly important.

Here, 50% suggests and they already have and a further 47% said just simply yes. 97% of our clients would recommend us to others. Clearly, some fantastic endorsements for the work our partners do for their clients but with a few areas that we can improve on. This year we also took the opportunity to ask a few of the general questions of our clients, which I thought you find interesting. When asked what their top three concerns were, the most common concerns today highlighted for the state of the UK economy, the result of the forthcoming election, and the likelihood of the UK leaving the EU.

Finally and most importantly, we asked about their priorities in terms of their own wealth was concerned. And here, the top three responses were having enough money to live in retirement, being able to enjoy retirement, quality of life, and being able to fund care should they need it whereas 10 or 15 years ago, we'd probably have seen minimizing inheritance tax or the ability to pass on their estates efficiently ranking in the top three, today looks very different with clients being more concerned about making their money, their retirement money last. Remember these are the views of 43,000 clients and what matters to them. So, it's a very meaningful survey, that should and does matter to us.

It tells us that our integrated proposition works and is valued by them. And that helping them manage their affairs efficiently and adding value to them continues to be crucially important. That's why we put so much time and effort into our investment approach, both in terms of the breadth for the proposition, and our management an oversight of it. Ensuring that clients have an appropriate spread of assets in line with their risk appetite and ensuring that their management of their portfolio delivers decent returns is clearly our number one priority. Over 90% of clients investing today have either bespoke portfolios or one of our model portfolios. And in the case of the latter, in 2014, each of those model portfolios have performed pretty much as we would have expected them as shown on this chart.

The percentage returns shown here on each of the yellow columns are net of our charges. And courtesy of some further research amongst private client managers conducted by ARC, our results are materially ahead of the peer group average figures as this chart shows. So, some great client feedback, supported by some good investment returns, which supports the view that we are serving our clients well. Looking to the future, we'll grow our business by staying very focused on our clients and what matters to them, whilst looking to add even more valued by growing and developing the partnership. If we do both well, we will attract even more clients and manage more of their wealth.

In so far as growing and developing partnership is concerned, our methods for attracting more partners and advisors are well known through our traditional recruitment methods, utilizing the skills on our business acquisition team through further investment in our academy program in London and the new regional academies in the Northwest, the Midlands, and early in 2016 in Scotland, through our next-generation program, which is delivering some excellent and encouraging results, and through our venture into the Far East and Middle East. These initiatives are all proving very successful, already having 9% to our partnered numbers in 2014, and we're confident we'll continue to deliver the required growth in our advisor community in the coming years.

At the same time, we will continue to broaden our proposition with new services and investment opportunities for clients. And the most recent of these new services is the new St. James's Place Money Management Account that we're launching in April in conjunction with Metro Bank. It will provide eligible clients with the ability to access short-term funding requirements from Metro Bank secured against their investment with St. James's Place, helping children or grandchildren with the property to pass deposits or school fees, or funding a deposit for a holiday home or similar purchase, or paying a tax bill without needing to cash in investments in the short term, we think will be a real value to clients.

Whilst clients currently have the option to draw money from their pension funds or cash in their ISAs to fund such short-term needs, we believe there'll be times when giving up a tax-free wrapper or withdrawing money from a tax-efficient pension fund will be not the right answer. Our clients have been very clear in telling us that they worry about having enough money to live on in retirement, so preserving their wealth as long as possible for them we think is a priority.

Well, that presupposes that they've saved enough in the first place, and as we all know, by and large, the majority of people aren't saving enough for retirement. That savings gap is becoming ever more apparent as the full consequences of the move from defined benefits to defined contributions schemes is being realized.

Whatever the level of the savings or wealth, it's also clear that more people than ever need advice. Yet there are fewer advisors around to provide such advice. The so-called advice gap is something that most industry commentators agree on. It may mean different things to different people but there is no doubt that an advice gap exists.

Interestingly, some recent research in the U.S. market published by Bernstein, literally a week or so ago, may point to some trends in demand that we could expect to see develop in the UK. This research suggested that the vast majority of the U.S. retail investors have continued to seek advice and that the cost of advice has proved to be very resilient in recent years. Conversely, some of the elements of the administration and the platforms are becoming much more commoditized in the U.S. and hence the price of those elements is falling.

Our market is similar to the U.S., people are living longer. An increasing number will live long in retirement and for some as long as they do in work. Couple that with the complexity surrounding long-term savings, pensions, taxes, charges, inheritance thresholds, from the frequency of government-driven policy changes in all of these areas and the need for advice is very, very clear.

Add to that the complexity of the decision people face as we move into the new pension freedom era. This chart, which I'd mention might be viewed by some as, as a somewhat extreme picture, sets out the type of decision tree a number of people will be faced with. And it is more complicated than some people think. And whilst the pension life service may help a few, it is not the complete answer. The answer is in face-to-face advice from a trusted advisor backed by well-capitalized business with a great reputation for added-value service. And we think we're well-positioned to capitalize on that opportunity. We have an established reputation and a great track record of delivering in this marketplace.

We have some of the most experienced advisors in the country. We listen to our clients, respond to their feedback and do our utmost to do right by them. All of those are attributes to meet the growing demand for advice in this market. As we've said before, many times, there is a predictability about our business. And we believe that with the increasing demand for our service and the opportunities mentioned above, that predictability is a real asset for us, our clients, our partners and our shareholders. We're confident about our future and look forward to continuing to grow our business both in the UK and now overseas.

Thank you for listening. I'll leave you with a summary of our results for 2014 and ask my colleagues to join me on the platform to take any questions you have. Thank you.

Gentlemen.

Q&A

A - David Charles Bellamy {BIO 14025555 <GO>}

I'll stay here and control. So, who wants to go first? We've got a couple. (42:40). Please state your name and just so that everybody knows.

Q - Ravi Tanna {BIO 16926941 <GO>}

Morning. Thanks. It's Ravi Tanna from Goldman Sachs. Three questions, please. The first one is on operational leverage. There's a slight tick up in the development expenses to £15.6 million and you've guided to similar levels in 2015. I'm just wondering, is this a kind of one-off effect? Or should we see it as an ongoing run-rate?

Second question is on the dividend payment. At what stage can we think about the dividend reserve, which is up over £90 million as being sufficient? And is there a consideration to stop growing that at some point. And kind of linked to that, you've given new disclosure on management solvency requirements, which were quite substantially above the regulatory requirement. I'm just curious to know what factors into that and how much flexibility there is around that? And the third question was around ongoing advice fees. Has there been a step-up in regulatory scrutiny on this? And what proportion of your advisors are charted advisors?

A - David Charles Bellamy {BIO 14025555 <GO>}

Well, let's take the financial questions first. Andy, if you can pick up the development and the dividend point. And that'll give Iain time to think about the ongoing advice fee question.

A - Andrew Martin Croft {BIO 5711239 <GO>}

I thought those three questions are coming my way. Firstly, the dividend reserve, you're right, Ravi, at the moment. We've set aside £90 million for dividend reserve. We are looking at that as part of this sort of capital management. We haven't firmed up on a number yet. But, Iain, is it £100 million, is it £90 million? What's the right number? £100 million is a nice, round number I suppose.

In terms of the management solvency, we've deliberately put that in there. But actually, if you look at the required minimum solvency, it's actually a very, very small number because we don't have options and guarantees and longevity risk on the balance sheet, as I said earlier. So, we've stress-tested market force, retention, concerns, that sort of thing. And that's where we come up with the management solvency margin. And we thought it was useful to disclose that information. It's also a number quite relevant for credit rating agencies, for instance.

In terms of the development spend, we're always going to have some business as usual development spends. In the last couple of years, it's been about £15 million. I think, if you factor in £10 million to £15 million in your models, you wouldn't be a million miles out.

A - David Charles Bellamy {BIO 14025555 <GO>}

Iain, do you want to pick up the ongoing advice fee and advisor relationship.

A - Iain Rayner {BIO 20875747 <GO>}

Yes. I'm not quite sure what your question is on the ongoing advice fee. But what I would say is that the partnerships are well aware that post RDR the ongoing advice fee has to provide value for clients. And that value's provided through accessibility, by advice, by meetings and by the relationship. And the evidence from the clients, from the Ledbury Research and everything we're seeing, is that our clients are happy with those four elements. So, we're not seeing any pressure on that.

You made the second point about chartered status. We have a program this year in place and some key performance indicators to actually double the number of partners during the year who are chartered. There's work going on there, and maybe next one I can, next meeting I can provide an update as to exact numbers if that would be helpful.

A - David Charles Bellamy {BIO 14025555 <GO>}

The thing about our business is, just to add to what Iain said, on two counts really. The regulatory group, the ongoing advice fee was part of your point. We're in exactly the same places the regulators client outcome is critical to us? And you probably say many times, we look after our client's wealth. They stayed with us. They gave us more business. They refer other people to us. It is not complicated in terms of the business modeling. And our partners know that. Which is why the great endorsement percentages I mentioned from the 43,000 is really, we will ask to our clients. I don't think there's another company that we'll ask every single client or give every single client the opportunity to give us feedback every single year.

And so we're very in line with the regulators on that front. No issues or challenges. In terms of the chartered thing, we need to point that out is that we have 1,200 people that are sitting behind the partnership. Some of the most qualified technically able people there are in the business who sit in behind the partnership, so whenever our partners come up against issues from clients that require that sort of technical expertise, whether it's legal, expert tax, trust, we've got people sitting in (47:24) and throughout the country backing them up, and that's all they do, support the partners to support their clients. So, the challenging question in terms of every single one of our partners being chartered is it's supported by an awful lot of people. So, as Ian said, we are on a program, it will take us some time, but it's not the most critical thing.

Sorry. In the front, here we've got and then Oliver.

Two here.

Okay. Sorry. We'll come over to the next one. Yes? Sorry.

Q - Oliver G. Steel {BIO 6068696 <GO>}

(47:53). Oliver Steel with Deutsche Bank. Two questions. The first is on the management fee. Is your guidance the same as it was at the interim? The figure here slightly less than I was going for, but it may have just been a function of my inability to average the funds under management correctly. And then secondly on Henley. I actually missed what the loss was in 2014, so perhaps you can just say that figure again.

A - David Charles Bellamy {BIO 14025555 <GO>}

What we call it? Sorry.

Q - Oliver G. Steel {BIO 6068696 <GO>}

Can you just remind us of the expectations you got from Henley? And also, I'm sort of a bit confused. Has the Henley name now disappeared and it's become St. James's Place, or is The Henley Group a partner of St. James's Place, and looking to recruit new partners?

A - David Charles Bellamy {BIO 14025555 <GO>}

No. The Henley, I'll start with that one. Andy, if you can take on the aspirations in that space. The Henley name has disappeared, so you walk in to those three locations in Hong Kong, Singapore and Shanghai, which was what my slide was intended to show, and you will walk into three St. James's Place locations that look exactly like the other 20 locations we have in the UK. And those 50 partners that formed The Henley Group are now 50 partners of St. James's Place in its entirety. And we will recruit people now into St. James's Place or into the St. James's Place partnership.

In terms of the investment into Henley, that's partly acquisition cost and partly as we wait to get, or are waited to get our necessary approvals through the different regulators that oversee the Singapore and Hong Kong markets in particular. Andy, do you want to take ...

A - Andrew Martin Croft {BIO 5711239 <GO>}

Yeah. I mean Henley's will be based not just distribution line you see. As we invest and acquire new advisors there's going to be cost associated with that. The profit arising from the new business that they will produce will come out from the life in the unit trust line. So, you should see Henley as contributing a loss for a number of years and actually the bigger the loss, probably in a strange sort of way, the better.

In terms of 2014, the loss in the first six months of our operations is £1.7 but in addition to that we've got development costs and other investment costs so that the total impact in 2014 was £4 million.

In terms of your other question, I will refrain from commenting on your ability to average. The management fee we disclosed is 77 basis points post tax and that hasn't changed in the second half either.

A - David Charles Bellamy {BIO 14025555 <GO>}

So, we've got one here who's been waiting very patiently. Sir?

Q - Andrew J. Sinclair {BIO 17749036 <GO>}

Thanks. It's Andrew Sinclair from Bank of America Merrill Lynch. First question just on the money management account just wondered, well, it's given greater visibility on customers' total wallet size, and will it access increased wallet share into the margin-generating products?

Secondly, just wondered if you could give your thoughts on the potential impact of the UK election this year, particularly on sales and retention given noise around possible tax changes, ISA limits things like that. And finally just on capital losses, how much control do you have over the timing of the release of these? What can accelerate these and what could delay them? Thanks.

A - David Charles Bellamy {BIO 14025555 <GO>}

Okay. David, do you want to talk about the election and how you see the future. We'd all be interested actually on this. I have no idea what he's going to say then. Okay. We'll have one each. but let's start with David and we'll see whether we all agree.

A - David John Lamb {BIO 15016583 <GO>}

My answer was given us a non-voting scot, as I didn't get to vote. I have no idea which way election is going to go, and I don't suppose anyone else has. But fundamentally, the economic reality we face in the UK don't change the fact that, as David said in his talk, people don't save enough for retirement. They don't have enough to invest their needs that they expressed as a service that we do as requirements. So, do I think the government will play around their taxes. Yes, I think they'll play around their taxes. We've had different taxes all the time throughout different governments. We have different regulations. Don't change the fundamental drivers of client needs.

So we have to be flexible. I don't think they will tamper with ISAs, we think ISAs are being supported by both parties. I think they can't help but tamper with pensions because every government has tampered with pensions. And that just adds to the complexity. My guys produced that such flow chart. We'll have to change it, I guess, post-election. But people need advice, so we can't call the election. We do recognize the reality of the UK economy isn't going to change overnight. And people's needs aren't suddenly going to change overnight either.

In terms of volatility also in the Metro Bank it's interesting because your question is about wallet share and to me it's about relationships. This business is all about relationships. So the more we talk to clients about their banking needs as well as their other needs, we deepen those relationships. That means that you have increased opportunities to help them plan their wealth and plan for whatever it is that we're going to work with them in terms of financial advice. So, I think, the Metro account will help us in our business, both acquiring new clients who were attracted by the proposition and deepening relationships in the existing clients. And that's good news to the business.

Q - Andrew J. Sinclair {BIO 17749036 <GO>}

And capital losses?

A - Andrew Martin Croft {BIO 5711239 <GO>}

Capital losses definitely has a very long technical answer to your question. But I will shorten it. It really depends upon the level of capital gains arising in the life company. So, if there are positive markets, we will probably get more gains that we can use these capital losses against. If the markets go down, then it will slow up the utilization of those capital losses.

Q - Andrew J. Sinclair {BIO 17749036 <GO>}

Okay. Thank you.

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

Good morning. It's Jon Hocking from Morgan Stanley. I've got two questions, please. Just to come back on the question about the management solvency ratio. I just wonder if you could talk a little bit more about sort of things you put into that number and whether you've considered operational risk items that the payer maybe looking at. And then linked to that, I just wondered how the deferred tax asset gets recognized in those numbers? I can see you've got a big chunk of tangible assets outside of the life company. How do you think about that related to the dividend buffer? Is this quite a, you've got a big headline ratio but it comes at a long way. I can see you've got a little flattish year. But is there an argument for raising hybrid, for example, to give you some more flexibility?

And then just finally on the link up with Metro Bank. The portfolio lending, is all of that going to be on Metro's balance sheet you take fees, otherwise it's going to work.

A - David Charles Bellamy {BIO 14025555 <GO>}

For Metro, yeah, let me just touch that, and Andy will pick up the other ones. The, all the risks for the lending is on Metro's balance sheet. That's exactly it. There is a, there will be a relationship between us where we feed or give them access to data. Clients will sign up to that so that we monitor the investments. They monitor the investment, but it's on their balance sheet that ending. We're not taking any fee. No, there are no partners. This is, as David said, this is about relationship, this is about adding value. This is about helping them preserver their wealth, and given some short-term funding access, and I entirely agree with David. We will have far more clients as a result, we'll retain more clients as a result, and that's the business reason for doing it.

A - Andrew Martin Croft {BIO 5711239 <GO>}

And on the list. I can't see the page number. It's page 26 of the press release in terms of the management solvency. This is a Solvency I calculation in effect. So deferred tax assets aren't in the assets. I'm pretty certain with that, but I will confirm that later if I'm wrong. And again, we're not following the prescribed Solvency II stress test here or anything. This was something that we look at internally in terms of market falls and where we see concerns may or may not arise, and therefore we've set that management solvency level.

We got to bear in mind that we're holding £52 billion worth of assets, so actually it's still isn't a huge amount.

I hope we answered your question.

A - David Charles Bellamy {BIO 14025555 <GO>}

(56:20).

Q - Barrie Cornes {BIO 2389115 <GO>}

So, it's Barrie Cornes from Panmure Gordon. I got three question as well if I may. First of all, the culture of Saint James's Place is very important to you. Can you give us some flavor or sort of actions you've taken to maintain that culture as you grow much bigger, it should clearly get harder, so in practical terms.

Secondly, in terms of the partners, the ex-Henley Group partners. Do they have the same sort of restrictions that the UK partners would have in terms of working for other business or working themselves separately from St. James's Place?

And thirdly, just wondered what the, touching on from Andy's point, really, what would you think the impact would be on lowering of the lifetime limit for pensions and the lowering of tax relief, maybe, which has been mooted post the election?

A - David Charles Bellamy {BIO 14025555 <GO>}

Ian, do you want to take the first two on culture and then Henley? And then we can, David can pick up the pensions release.

A - Iain Rayner {BIO 20875747 <GO>}

Yeah, Barrie. It's a good question, really. It's just that it's one of the challenges of scale that we face, retaining the culture of the organization. We have a, in model, we talk about this is a big company that must feel like a small one. The partners, when they join, they feel part of a smaller organization, even though it's a big organization. So through the field management teams, through the heads of business, there's an awful lot of relationship work that goes on to make sure our advisors feel that they're independent people, they're not just a number, that there's a flat management structure, that they have access to the senior teams still. We do a lot of client interaction work, where we're a high-touch organization. And it's not just the leadership team who are responsible for that. A large number of our partners take on that responsibility because they're proud of the journey they've been on. So it is important. It is one of the challenges of scale. And it's really high up on the corporate agenda that we maintain that.

The second point on the Henley Advisors' restrictions, the Henley Advisors will be subject to the same compliance management controls that the UK advisors will be. That was the purpose of, and they're on that journey as well. And so they, it should be the situation that if you're working to our Singapore office and you meet an SJP partner, it will just be like working into Solihull office and meeting an SJP partner the same level of controls, management, governance, and access to products and compliance processes.

A - David Charles Bellamy {BIO 14025555 <GO>}

And in fact your relationship will be exactly the same, so they're not different flexibilities (59:24).

A - Iain Rayner {BIO 20875747 <GO>}

I'll hand over to David on the lifetime.

A - David John Lamb {BIO 15016583 <GO>}

I think the two dynamics to get to grips with here. The first one is the tax relief, and what's the impact of that in terms of pensions market. And that sort of thing that's been talked about is reducing higher tax relief and spreading tax relief from broader across the income tax paying based. We've been totally relaxed about that. Now, that the maximum contribution in the standard £40,000, we don't see that as being the big thing. That actually is quite a good thing. We think actually the increase in pensions interest will go up again. And that's building on this sort of interest you saw it coming out of the last budget change in terms of accessibility and that's the second dynamic, because people's needs haven't changed, so that's the earlier point I made.

What you now got is a range of different tax (01:00:04) you can plan for. So, the lifetime allowance comes down. I think it's so, so the different combination of income and capital gains tax is going to apply to different pots of money. So, in the unit trust, it's capital gains tax free, but you pay income tax. In the pension side, you get (01:00:17) until you start taking money out, some is tax free, some is taxed to income, depends on how you do actually and that's an interesting conversation.

Well, that means is that people advice needs haven't changed. You've got a broader range of interest tax planning conversations in half of those people limiting sales and not the drivers there. The big thing that's changed is pensions are now seen as the accessible following the last budget change. That's the big catalyst for in the market, the tax rates and lifetime allowance, I think are second order effects.

A - David Charles Bellamy {BIO 14025555 <GO>}

(01:00:44) Thank you. I think the second point is really important. Just come back to Iain's point on culture. The other thing about culture is, as well as in the field it's about the whole organization. And we saw (01:00:57) one of our colleagues at the back has led for the last 12 months a small team looking at culture in terms of the sound system, in terms of our offices, in terms of everybody that touches this organization, and that's really important for us. So, when we do our annual meeting, some of you I know will come along to that, and then we get everybody associated with this organization, so they feel and touch the organization and see for what it is. And that's really an important part of the way in which we glue this thing together despite its size. Fortunately, with the O2, we still ain't using capacity, so we can keep moving that stage back for a few more years yet, so we're okay.

Sorry. There's one other question that I, is there a question here? Okay. And then we'll go back to (01:01:34).

Q - Paul C. De'Ath

Hi. Paul De'Ath. Obviously, a couple of questions from me, please. Firstly on competition, so we're seeing another one of your UK life peers essentially trying to copy your business model to some extent. How much of a threat do you see that in terms of competition in terms of your partners going out and talking to people, but also from a recruitment point of view if they're looking to increase their distribution forces as well?

And then the second point is just on the Middle East expansion. You mentioned on the Asian expansion that Henley kind of gave you a two- to three-year head start. From that, should we assume you're looking to do something similar in the Middle East, or is this more of a greenfield kind of operation?

A - David Charles Bellamy {BIO 14025555 <GO>}

Iain, do you want to take on the first part? And if you want to venture into the second part, feel free.

A - Iain Rayner {BIO 20875747 <GO>}

Yeah. I mean, I'll do the second one first, Middle East. Henley was an opportunity that gave us the head start because there was a cultural fit with the people and we like them, and so that's too good to turn away. If we find a similar relationship in the Middle East, we may well consider that. Currently, the view would be the Middle East probably offers us a better opportunity for a greenfield. It's closer. We've got a lot of expertise. We're very confident we could build something quickly there. So, at the moment, my view will be greenfield unless an opportunity came up.

The first question on competition, so the first question on competition, yes, very flattering that there are people who want to kind of be like us. And that's been happening for 22 years and I'm still trying to find anybody who does it. It's is hard yards. It's hard yards. And you can't just throw it together by a few acquisitions and call it an integrated business with a culture and a sense of direction and a vision and everyone joined and pointing in the same direction. So, it is flattering and good luck to them. They'll need it. I don't see any signs at the moment that there are partners coming across any competition for many of these players. But that doesn't mean we're complacent.

A - David Charles Bellamy {BIO 14025555 <GO>}

I think. No. It's good. Yeah. So, glad you took that question. The good thing, I mean, I think it is flattering and I think it's good that people recognize the need for advice and are putting in to that marketplace so I don't see this as anything other than a positive. And I think Iain's absolutely right, there's no, we don't sense any competition today. It's not complacent. We just don't sense that it's being or becoming a major issue.

What I'm really encouraged about is there's much more collaboration around organizations like us and them, from the two or three companies that you referred to and there are others. This is a much more sort of united industry almost, at senior levels, so we're talking to our colleagues in different companies and that's healthy for the industry as well because for too long it's been infighting. It's been very fractured and I think it's getting stronger but together. I know that sounds a bit fluffy, but it's a better place to be today.

So, we've got question at the back here, and we probably going to have to wrap it up soon. So, one or two more questions and then, Ashik?

Q - Ashik Musaddi {BIO 15847584 <GO>}

Hi. Thanks. Ashik Musaddi from JPMorgan. Just a couple of questions. First of all, on your Asian business, can you give us some sense what sort of product and what sort of charging structure are you using there because it's definitely a different market, different tax regime, different needs of people. So, any thoughts on that? What sort of products you are offering there?

And secondly, I mean Andy mentioned that there is the back-office infrastructure cost will now start to benefit. In what sense? Is it like lower expenses? And if yes, in what sort of line should we see that benefit coming through? Thank you.

A - David Charles Bellamy {BIO 14025555 <GO>}

Andy, do you want to take the last one first, and then, David, you can pick up the investment piece?

A - Andrew Martin Croft {BIO 5711239 <GO>}

If you, I'll see if I can find the page for people to take away with them. But if you looked at our expense table on page 35, there's a line there that's called third-party administration. That's the fees that we pay after the past administrators. And we are expecting once the order business is migrated onto the new platform that we will be saving double-digit percentages on those fees.

I'm not suggesting that will be the case in 2016 because obviously we've got to control the migration of the business very carefully, but that's the line you'll see it coming through. There would also be an embedded value impact at some point because of the maintenance cost assumed in the embedded value should also come down, so there'll be some capitalization of that inside embedded value.

A - David Charles Bellamy {BIO 14025555 <GO>}

(01:06:39).

A - David John Lamb {BIO 15016583 <GO>}

Yeah. In terms of the products that initially as Ian (01:06:42) was explaining in his presentation, we are targeting the UK expat population. So, the initial product launches are going live, and they are live in Shanghai and Singapore and going live in Hong Kong, where essentially exactly the same offshore international product range. There's a marginal difference in the pricing of them, but it's broadly exactly the same. Over time, there'll be evolutions of those products as those markets develop. But the footprint today looks very similar to the footprint we have on our international product set.

A - David Charles Bellamy {BIO 14025555 <GO>}

We have one more. Over here. Okay.

Q - Alan G. Devlin {BIO 5936254 <GO>}

Thanks. Alan Devlin from Barclays. A couple of questions. First of all on the balance sheet questions, given your solvency margins and lack of debt leverage and the dividend reserves, as you move into Solvency II world, is there an opportunity to maybe work the balance sheet harder and given the new Solvency II should be beneficial of your business? And then secondly, can you remind us on the benefits of the back office integration you should expect in 2016 once it's fully implemented? Thanks.

A - David Charles Bellamy {BIO 14025555 <GO>}

Both yours.

A - Andrew Martin Croft {BIO 5711239 <GO>}

I feel they're come in my way on that. I mean I'll do the back office first because it's the follow-on. It's automatic. So, the unit trust business is roughly a third of our funds under management. So, again, lump sums if you took that $44 million, one-third Unit Trust to ISAs. And if that's the business we're migrating first, you could see the saving will come through in that business first. So, I think there's enough there for you to sort of put a number in, I suppose.

In terms of the balance sheet, the most important thing we need to remember on the balance sheet is that our clients, our partners, our employees, our shareholders have to fill the balance sheet is totally secured. Otherwise, if you work the balance sheet too hard, then you'll get into some difficulty. We're obviously working through Solvency II. I don't see it as a significant change in the capital levels. It will change the ratio because the ratio will be quite clear as well. So, I think we'd have to wait to Solvency II to look at that question in further detail.

A - David Charles Bellamy {BIO 14025555 <GO>}

Okay.There's one over here.

So, there's one more? Okay. Sorry.

Q - Ben E. Bathurst {BIO 17516248 <GO>}

Hi. Ben Bathurst from Nomura. Just another question on the dividend, please if I may. You've said the payout ratio could now reach 75% in future years. Could that feasibly be as soon as the 2015 dividend, the 75% ratio? Fairly not, is it fair to assume that the 70% that we've seen paid this year would be a good guidance for the 2015 ratio?

A - Andrew Martin Croft {BIO 5711239 <GO>}

We could move to 75% this year, but obviously over a couple of years. I certainly don't see going backwards as being part of what we said. So, I think we would assume over two to three years, and that would reasonable.

A - David Charles Bellamy {BIO 14025555 <GO>}

Okay. Thank you to my colleagues here. Thank you to Ben, and thank you, ladies and gentlemen, for your support. I think there's coffee over there if you want to carry on discussions amongst yourselves or with us, we'll be hanging around for a little while. Thank you.