FINAL

Bloomberg Transcript

Q4 2015 Earnings Call

Company Participants

- Andrew Martin Croft
- David Charles Bellamy
- David John Lamb
- Ian Stewart Gascoigne

Other Participants

- Alan G. Devlin
- Andrew Sinclair
- Andy Hughes
- David L. McCann
- Jon M. Hocking
- Lance M. Burbidge
- Oliver George Nigel Steel
- Paul De'Ath
- Ravi Tanna

MANAGEMENT DISCUSSION SECTION

David Charles Bellamy {BIO 14025555 <GO>}

Good morning. Morning, ladies and gentlemen. Welcome to our biannual results presentation. As you can see from the agenda, relatively straightforward presentations today. There are just going to be two presentations, one from Andy who will do a resume on new business that we released on January 21 and then talk about the financial performance, and I'll come after that and talk about the future and then we'll go into the usual Q&As.

Because there are only two presentations, they will be slightly longer than normal, and one in particular will be much longer than normal; that's Andy's. And he's starting for us because not only will he do the normal results presentation, but he'll then get into a slightly more detailed presentation around Solvency II.

So, without further ado, Mr. Croft. Thank you.

Andrew Martin Croft {BIO 5711239 <GO>}

Morning, everyone. As David said, I'm going to start with the recap of the January results announcement. I'm then going to do the usual coverage of the results, a few words on the dividend, and then that lovely subject of Solvency II.

So let's look back at the January new business announcement. The total single investments, at £9.2 billion, were up 17% over the year. Retention, at 95.7%, continues to be very strong, whilst the rate for pensions continues the recent trend of exceeding the embedded value assumption. Consequently, as I will cover later, we have made an operational assumption change within the EEV calculation. Net inflows of £5.8 billion, were up 14% and represented 11% of opening funds under management, which themselves ended the year at £58.6 billion, a new record and growth of 13%.

We also provided an update on the partnership numbers, which ended the year at 2,264, up some 6%, whilst the total number of partners and advisers was 3,113, growth of 10% for a second consecutive year. Whilst the investment in new advisers translates into an expense today, it is a major lead indicator for future new business. Therefore, this 10% growth bodes well for 2016 and future years. These new business funds under management and adviser numbers are the key drivers of the financial performance.

So let's look at the results, starting with the familiar breakdown of the EEV. The new business profit for the year was £440.7 million, compared with £373.1 million, an increase of 18%, reflecting the higher new business. The expected profit from the unwind of the discount rate was £172.4 million, compared with £182 million in 2014.

Now, the unwind for 2015 was based on a discount rate of 5%, compared with 6.2% for the prior year, with both reflecting the 10-year gilt yield at the start of each year. Had the current year discount rate been consistent with 2014, the unwind and operating profit would have been £41.4 million higher. There was a significant positive experience variance of £78.1 million, compared with a similarly significant positive variance last year of £78.5 million.

Now, during the second half of the year, we completed the review of all the Group companies that we commenced a number of years ago. This review identified further capital losses, which are reflected as a positive £63.1 million experience variance, and this compares with a similar benefit last year of £39.4 million.

There was also a large positive £44.1 million operating assumption change, reflecting a change to both the pension's retention assumption and the maintenance expense assumption, and a few words on each of these. I mentioned at the start of this presentation that the 97% retention rate on pensions business has for a number of years exceeded our embedded value assumption, and following the 2015 annual actuarial investigation, this assumption has been amended to better reflect current experience. This includes clients continuing their pension investments beyond the age of 75.

The second operating assumption change relates to the maintenance expenses. During 2015, we signed a new contract with our back office administrator which sets out the administration charge that will apply to the business administered on the Bluedoor platform. Therefore, the maintenance expense assumption has been changed to reflect the lower tariff on the existing in-force business.

It's important to note that this change captures just the benefit to the existing business. Additional savings on new business will also emerge within the future new business contribution. Investment income in 2015 was £6.1 million, compared to £8.1 million, whilst distribution contributed a negative £21.2 million, compared with a negative last year of £10.9 million.

Now, the current distribution result was negatively impacted by the significantly higher £20.1 million FSCS levy, by comparison with the £5.9 million last year. In addition, the costs associated with our investment into the Asian operations, at £7 million, were higher than the £1.7 million for the period of ownership in 2014. And if we adjusted for both of these items in each year, there would have been a trading profit of £5.9 million for 2015, compared to a trading loss of £3.3 million in 2014.

Now, whilst we anticipate a further elevated FSCS levy of some £16 million in 2016, we do then expect a more normalized level in future years. The back office development cost, at £18.1 million for the year, compares with £11.9 million. Now, this change program has continued to progress well during 2015, albeit the project is running behind and costing more than our original plan.

During the final quarter of last year, we undertook full migration of the unit trust and ISA business on to the new system, and we will start to see some benefits accrue in 2016. Having successfully completed this phase of the project, during 2016 we will launch a new retirement account and plan for the migration of the existing and pensions drawdown business; that is, once the pension's landscape becomes clear. As we continue to develop the system and migrate the existing business, we will incur further investment expenditure and anticipate the cost for 2016 of a similar amount.

And finally, other contributed a negative £41.9 million, compared with £25.5 million. The principal movements between the two years relate to share option cost, our continuing investment in the academy and miscellaneous other items. And if we take all this into account, the operating profit for the year was £660.2 million, up 11% compared with 2014. Now, the fall in global stock markets during 2015 has impacted the investment return of our funds.

However, in comparison to the falls experienced in the markets, our investment return was only marginally below the EEV assumption, resulting in a relatively small negative investment variance of just £24.4 million. By comparison, there was a positive variance last year of £80.2 million.

Finally, there was a small positive economic assumption change for the year, taking pre-tax profit to £636.7 million and the EEV net asset value per share to 737.3p, an increase of 12%. This continues the trend of a steady increase in the net asset value per share, with the NAV having more than doubled since the start of 2011.

Moving now on to the underlying post-tax cash result, the net income from funds under management, at £278.6 million, was up 18%, in line with funds under management. The margin arising from new business was £41.7 million, up 14%, more or less in line with new business. Now, this movement together with the growth in the EEV new business contribution confirms we are not seeing any margin pressure.

Frustratingly, the FSCS levy reduced the post-tax cash result by £15.9 million, and other expenses were £138.3 million. There was a benefit of £12.1 million from the utilization of capital losses during the year. Now, this is a source of income that will continue for the foreseeable future and there's still a benefit to accrue of £113.1 million, and we now expect the annual contribution to be some £8 million to £10 million. Miscellaneous contributed £3.9 million to the result, lower than the £7.6 million in 2014.

So taking all this together, the total post-cash underlying cash earnings for 2015 were £182.1 million, up 5%. However, if we look through the operating performance adjusting for the FSCS levy in both years, then the growth would have been 11%.

Now, the cash result is the building block to the IFRS result, and the current slide shows the movement from the cash result to the underlying post-tax result. As usual, there are a number of items accounting for the movement, including back office development, the share option expense and the deferred tax movement, which for both years includes the benefit of the capital losses I mentioned earlier. The underlying result is then adjusted for the movement in the DAC and DIR and PVIF to provide the IFRS profit before shareholder tax.

Moving now on to the dividend, at the half year we increased the interim dividend by 20% and indicated that the full-year dividend would increase by a similar amount. I'm therefore pleased to confirm that the final dividend will be increased by 20%, providing a full-year dividend of 27.96p. This represents a payout ratio to underlying cash of 80%. However, looking through the increase in the FSCS levy, the payout ratio would have been 76%.

Looking forward, we fully intend to continue our policy of increasing the dividend in line with the underlying performance of the business, with the comfort of the £19.2 billion of funds within the gestation period which will begin to contribute to the cash result as each cohort reaches its seventh year. We also have the added comfort of the dividend buffer.

I now want to move on to Solvency. I know you've been waiting for this bit. As you know, Solvency II replaced the Solvency I regime with effect from January 1 this year. The main difference between the two regimes is a greater focus on risk and risk management. Consequently, assets and liabilities are assessed on a realistic basis, with appropriate capital set aside to cover risks inherent within the business.

Now, SJP is a unit-linked fee-based model and we have always had a low appetite for risk, so we have no exposure to options, guarantees or longevity risk and little, by the way, of mortality or morbidity risk. These factors, together with our prudent approach to investing surplus assets, served us well in the Solvency I world, with our solvency remaining robust throughout the business cycle.

And for the last time, let's remind ourselves of the Solvency I calculation at the end of December 2015. Our unit-linked liabilities are matched with equivalent unit-linked assets. Now, very importantly, this will not change in the Solvency II world, so our liabilities to clients will continue to be matched with corresponding assets. And after allowing for intergroup dividends at the end of the year, the life companies have net assets of £198.5 million and the Group has total assets of £518.5 million. The total Solvency capital requirement was £78.3 million, resulting in Group free assets on a Solvency I basis of £440.2 million, a strong Solvency position.

As we move into the Solvency II world, the risk profile that has served us so well under Solvency I continues to serve us well, and we have not needed to use any of the permitted transitional provisions. So the first important message about Solvency II is that it hasn't altered our business, our risk profile, nor how we look at capital levels. It's more about some presentational changes together with a number of very large moving parts, and I will now take you through the changes, what they mean and their presentational impact.

The current slide takes us from Solvency I net assets to the Solvency II net asset position, and there are a number of adjustments required. Firstly, £46.9 million of Solvency I actuarial reserves are not required under Solvency II. Secondly, deferred tax assets of £175.6 million, not allowable in the Solvency I world, are included under Solvency II. And thirdly, there are a few other minor adjustments, resulting in Solvency II net assets of £722.4 million. Therefore, our Solvency net assets are £204 million higher.

We then bring in the expected future emergence of profit, the VIF, of some £2.3 billion, together with a risk margin of £624 million. This all adds up to total Solvency II assets or own funds of some £2.4 billion. The Solvency capital requirement under Solvency II is £1.6 billion, giving solvency free assets of £809.2 million, compared to the Solvency I free assets you saw earlier of £440.2 million. So another key message is that the Solvency II free assets are £369 million higher under Solvency II, a very robust position.

Now, almost all of this increase in the free assets arises within the life companies, and I'll come back to that in a moment. Now, here's the peculiarity. When we calculate the Solvency ratio, that's own funds, shown as A, divided by the Solvency capital requirement, shown as B, we get a ratio of 151%, lower than the Solvency I position despite the higher free assets.

Now, this is not a point to be concerned about and the ratio is not the most appropriate measure for unit linked fee business like ours. And the VIF, risk margin and Solvency capital requirement are closely correlated, so as the VIF increases, then the risk margin increases, the Solvency capital requirement increases and the free assets also increase. So the financials are in better shape, yet oddly the Solvency ratio falls.

And to reinforce this point, let's look at a real sensitivity, a 10% reduction in funds under management. Here is the Solvency position for the Group again, and let's look what happens. Well, firstly, and importantly, the net assets do not change. They remain £722.4 million. In fact, they would barely change if funds under management were down 20%, 30% or 50%. Equally, they are insensitive to interest rate movements and also persistency. Our net assets are very resilient.

If you look at the Solvency free assets, unsurprisingly, they are lower. However, the Solvency ratio has actually increased to 153%. And the opposite also occurs, so the Solvency ratio increases as the free assets decrease and therefore the business is arguably less robust. So the important point here to make about Solvency II is that the Solvency ratio is not the most appropriate measure for SJP. Instead, we will be focusing on the level, quality and resilience of the net assets.

So what does all this mean and how does the Board look at the capital position? Well, nothing has changed except for the life companies, and here we will continue to hold unit linked assets sufficient to cover unit linked liabilities, meaning that client liabilities are covered. And in addition, we will hold liquid net assets to cover a minimum Management Solvency Buffer of £150 million.

Now, why £150 million? Well, this buffer has been set having regard to a number of factors, not least the results from the stress and scenario testing carried out as part of our own risk and solvency assessment. And as an aside, this Management Solvency Buffer of £150 million is at a similar level to a buffer we historically held under Solvency I. This was not to be unexpected as, as I said earlier, neither the business nor the risk profile has changed.

So where does this leave us? Well, as I said, nothing has changed in the business other than we are now reporting an increased free assets within the life business of £370 million - to £526.5 million. However, the net of the VIF, the risk margin and the Solvency capital requirement amounts to £113 million. This is not a liquid asset but intangible, so let's deduct it for internal capital purposes. Similarly, the £170.3 million deferred tax asset is not liquid, albeit over time it will be realized. So let's also deduct this for internal capital purposes. This leaves us with liquid assets of £243.2 million. And just to be clear, these liquid assets consist of UK gilts, AAA rated money market funds and short-term bank deposits; the resilience point again. Taking all this into account, we are therefore holding £93.2 million of liquid assets over our Management Solvency Buffer, a very resilient position.

So, to summarize the key messages on Solvency II, the nature of our business has not changed; nor has our risk profile. Solvency II net assets are higher by some £200 million, while Solvency II free assets are higher by £370 million. Despite the higher free assets, the Solvency ratio of 151% is lower than under Solvency I. However, the ratio is not the best measure for a unit linked life business like ours. What is important is the level, quality and resilience of the net assets, and our net assets are very resilient.

So that's me done. 2015 was another strong operating year, with the key highlights summarized on the current slide. The two key takeaways for me have to be the 20% proposed increase in the full-year dividend and the higher Group net and free assets under Solvency II.

So thank you for your attention and I'll hand you back to David.

David Charles Bellamy {BIO 14025555 <GO>}

Thank you, Andy. Thank you for that enlightening presentation on Solvency II. Andy has cut a video on the topic, so if any of you want to go back into Solvency II at any time, there's a nice just under 10 minute video that he produced on Friday. I confess to not having seen it yet. I did say to him on Monday, 'What does it look like?' and he came in rather pleased with himself, saying 'Actually, I think I come across quite well and look quite good on screen.'

So I'm not sure he's going to get the call from Hollywood any time soon, but it sounds like it's a good video to watch. So it will be up, posted on line, seriously, later today. Thank you. I'd like to - he's not looking at me very pleased right now, so.

I'd like to start by just reflecting on the results that we've achieved for a few minutes and putting them into some context in relation to the market. It's worth remembering that the FTSE 100 fell for the second consecutive time in 2015, two years of negative growth for that particular index. During that time, we've seen our funds under management grow from £44.3 billion to £58.6 billion.

The picture is equally impressive when looking at the last 10 years. I don't know how many of you noticed that the day before our annual Company meeting which we held on January 22, the FTSE 100 was exactly the same level that it was 10 years ago, to the day. Total shareholder returns would have been circa 45% including dividends, but nevertheless the FTSE index was at the same level 10 years on. In that period, though, our funds under management grew from £12 billion to over £56 billion, a 350% increase, and clients invested our then managed fund portfolios would have exceeded the FTSE TSR return by almost 50%.

Furthermore, the 20% increase in gross inflows in the final quarter of 2015 was the 15th consecutive quarter of growth, four years of quarter-on-quarter growth in gross inflows. The track record is even more impressive in terms of net inflows per quarter. The £1.6 billion of net inflows in the final quarter of 2015 was the 40th consecutive quarter of positive net inflows in the last 10 years. And in case you've missed the point, that means we haven't missed one quarter of positive net inflows in that 10-year period.

Both of those records are the real demonstration of the resilience of our business, and despite recent market volatility, I don't expect us to lose those records in this quarter. Such is the current level of activity in the partnership right now. I hope those comments don't come across as us sounding complacent. That clearly isn't my intention. It's simply that I just want to stress just how resilient this business is. You've seen it in 2008 and 2009, again in 2011, and I suspect you'll see it once more in 2016.

That resilience is in part driven by the simplicity of our business model, the number of partners times productivity per partner. As we continue to grow the number of partners and they in turn grow their businesses, we can expect to grow the overall business. As we often say, the business model is simple, simple but not easy. For us to recruit new partners and practices and keep them, we have to ensure that St. James's Place is the place to be. We have to ensure that we remain very focused on supporting them and their clients and making our proposition the best it can be for both communities. That's why we spend so much time on our investment approach.

Having launched two new funds in 2015, that's the Diversified Bond and Strategic Income funds, we now offer over 60 independent investment professionals from across the globe, many only available to partners and clients of St. James's Place. Offering a rich selection of investment professionals is only part of the story, though. Ultimately, it's results that matter, and we clearly need to retain the quality and level of our performance if we are to attract and retain clients.

In 2015, our UK Equity Fund managers performed well, with all but one outperforming the market. And of the six that did outperform, five did so by more than 5%. Similarly, our North American, International and European funds have again produced good returns, as did a number of other funds including property and absolute return funds. Of course, clients don't typically invest in individual funds. The introduction of our model portfolios four years ago has provided a better risk/return balance, embracing both the benefits of diversification and active management. Over 90% of new client investments today find their way into portfolios in one way or another, with the majority going into our model portfolios.

Since their introduction four years ago, clients have seen their investments grow by between 5% and 10% per annum, outperforming the ARC private client indices. And to remind you, the ARC figures, like our own, are after all charges and cover all of our major competitors. So we can be satisfied that our focus on delivering outperformance for our clients, despite some challenging market conditions, is achieving results. However, as David Lamb explained at our annual company meeting, investing is personal to each client and the same is true of the service they receive from us via their partners. Giving partners the flexibility to provide a service to their clients that meets their requirements is important if we're to achieve such personal service.

Whilst we believe we do just that, we regularly seek feedback from clients to ensure we're meeting their expectations of both us and of our partners. The survey that accompanies the annual wealth accounts sent to clients at the beginning of every year is the most effective way we do that. Whilst we don't have all the results from this year's survey, we have had over 30,000 responses so far, so a more than representative sample. And as it happens, the results are remarkably similar to previous years, with practically all questions generating over 90% satisfaction levels.

90% of clients have met with their partner in the last one to two years. 92% of clients feel that they've received the right amount of face-to-face communication. 98% of clients perceive the value for money offered by our proposition is either reasonable, good or excellent, with 80% in the good or excellent categories. 95% of clients would recommend SJP to their colleagues or friends and just short of 60% say they already have. So some excellent results but, as always, some room for improvement.

As in previous years, we've also taken the opportunity to ask a few other questions. Some were free format, which will take some time to analyze, but one or two were multiple choice, with the most topical being about pensions. Two-thirds of those who had thought about the subject thought that maintaining tax relief on pension contributions was the most effective way of encouraging future generations to save for their retirement. And linked to that question, over 20% of those still saving for retirement aren't confident at this stage that they will have sufficient funds for their retirement and so recognize the need to save more.

We also asked about intergenerational matters and we're encouraged by our clients' interest in the transfer of wealth to younger members of families, specialist probate services, intergenerational mortgages and educational initiatives for younger members of their families, all of which will form part of the intergenerational project we've initiated for this year. Returning to the question of pensions for a moment, in a few weeks time the Chancellor will update us on his intentions following the consultation initiated last year. You'll no doubt remember the debate centered around EET versus TEE; in other words, tax relief on the way in or tax free on the way out.

Whilst there's clearly a possibility that he'll decide to adopt the more radical TEE approach, most industry commentators, journalists and indeed many Tory MPs seem to favor retaining tax relief, albeit with a flatter structure. That's certainly our preference, not because either approach will have a material effect on our business, but because the alternative will almost certainly lead to years of a complex transition from one regime to another, and on top of an already complex pension's regime.

Some might argue that that might be good for an adviser based business like ours, and it probably would, but we believe it would be the wrong answer for society. The fact remains that people are living longer, aren't saving enough and need more encouragement to do so, not less.

The other major review underway is of course the Financial Advice Market Review, or FAMR, as it's known. We've been actively engaged in this review and whilst not directly affected, have encouraged the review sponsors to think carefully before radical change. Many people think that the call for the review was triggered by the recent pensions freedom legislation and was responding to concerns over clients ability to access advice about their new found freedoms, and specifically prior to encashing their pension funds, i.e., the so-called advice gap.

Consequently, and in response to FAMR, providers are now asking for more flexibility and clarity over their ability to give generic advice to clients with smallish pension funds without falling foul of the somewhat burdensome regulated advice market that exists post-RDR. We can expect an update from The Treasury around the time of the budget, but as with the tax relief point, we don't believe the outcome will have any impact on our business.

That assessment is also supported by some recent facts released by the ABI. In the first six months post the implementation of pension's freedom, some £2.5 billion was paid out in lump sums, with an average of around £15,000. £2.5 billion was paid out in income drawdown payments. The average there was £3,600. £2.85 billion invested in drawdown plans and £2.17 billion invested into annuities.

And what's interesting about this next chart is the fact that the amounts of money moving from pension funds to somewhere else hasn't changed that much in recent years, although income drawdown is becoming much more popular. And as the pie chart demonstrates, the same is true for our business. More clients are leaving their money invested with us in those drawdown products, hence our improved retention figures.

One of the other consequences of pension's freedom has been to raise the profile of exit charges that are applied to regular contribution pension plans that do not run their full course. In other words, where the plan holder contracts to pay into their pension plan for a certain number of years, typically referred to as up to their selected retirement age, and subsequently either retires before that contracted date or simply wants to access their pension fund early, but after age 55.

The FCA have now been tasked with the job of implementing some form of cap or fairness limit on such charges, and we understand they plan to communicate further with us later in March. We don't expect a material effect on our business, whatever the outcome of that cap.

Let me now change track and say a few words about Bluedoor, the new platform technology we're implementing in our back office. As Andy has explained, it is running a little late and over budget. Such is often the way of large IT projects. Nevertheless, the first phase has been successfully implemented and all of our substantial unit trust & ISA business is now being processed on the Bluedoor platform and has been for several months now. £8 billion worth of units and over 300 million lines of data were successfully migrated from the old system in October last year.

As some of you will have heard me say at our annual Company meeting, we've encountered some teething problems and the scale of the change has had an impact on some of our service levels in our administration centers, all of which are or have been addressed. Looking forward, this year we'll implement our new retirement account onto Bluedoor, which means we'll begin to process new business for those accounts also, and that will be followed by our bond business in 2017.

The business case for Bluedoor remains compelling, substantially improving the service delivered to partners and clients alike, whilst at the same time reducing our admin cost for each investment, both our in-force book and for our new business. We're not there yet in terms of completion, but we're well on the way.

Elsewhere, I'm delighted to say that we've received the final change of control clearance from the regulators for the acquisition of Rowan Dartington. That means our plans to roll out the new services to the partnership next month remain firmly on track, and we look forward to working closely with Graham and his team. We'll feature an in-depth look at Rowan Dartington and its potential added value to the Group at our next Capital Markets Day, which we're scheduling for the end of April.

And finally from me, a few words on partnership growth. You will have seen the growth in the number of partners and advisers in 2015, up 6.2% and 9.8%, respectively. Both really bode well for growth in new business in the coming years. The drivers for this growth are in part our normal recruitment activity, in part the increased influence of our regional academies and in part our expansion into Asia, all of which are delivering very much in line with or above our expectations. But it's also, importantly, in part down to our improved partner retention in recent years.

This latter point is not something we've dwelt on in our results presentation, but it is worth pointing out that despite our scale and despite increased competition in the marketplace, fewer partners left us in both 2014 and 2015 than in any of the previous 18 years, in absolute terms. And given our scale now, I think that's quite remarkable and testimony to the work that our entire community do, supporting the partnership and making St. James's Place the place to be.

As I said at the start of this presentation, we have a business model that not only delivers substantial growth in stable market, but also consistently delivers and demonstrates resilience in tougher conditions, further evidence of its predictability, a word I've often used in these presentations. And those are the qualities that have enabled us to continue to report good growth in all of our key measures and another set of strong results today.

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

Q&A

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

We have some roving mics, so I don't know who wants to go first with the questions. Hello. We've got one or two. So do you want to come down the middle here and work your way down to start? Never mind. Sorry, yes.

Q - Ravi Tanna {BIO 16926941 <GO>}

It's Ravi Tanna here from Goldman Sachs. I have three questions, please. The first one was just on Bluedoor. You've referenced the fact that it's a little bit behind schedule and over cost budget. Could you give us perhaps a sense of what the quantum of benefits are likely to be that will accrue from that eventually and over what kind of timeframe?

The second question was just on the implementation of pension freedoms and also changes to the annual tax allowance that's coming in in April. I was just wondering if you could give us a sense of whether there's been any material uptick in pension activity flows, et cetera, in anticipation of that change in limit.

And the third one was on the announcement around the expansion of the academy and the office in Canary Wharf. I was just wondering whether there would be material costs attached to that. Thank you.

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

Okay. Andy, do you want to talk about Bluedoor and the benefits and how they'll materialize, and then David can pick up pensions freedom.

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

So we currently pay a tariff to our third party administrators of around about £60 million a year. I think it's £55 million, £56 million, let's call it £60 million a year. We would expect to see savings on those numbers of somewhere between 10% and 15%. So let's say we expect to see annual savings on the existing business and existing volumes of somewhere between £6 million and £8 million a year. We won't get all those in 2016, because obviously only the unit trusts and ISA business are on the platform.

Now, those numbers will continue to increase as more new business is put onto the system, so over the term of the contract there should be material savings. As well, as David said, that's not just the sole reason for doing it. Its future proofing the business and enhancing client and partner experience.

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

Thanks, Andy. David, do you want to talk about pensions and -

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

Yes. So if you look at – first of all, take pensions freedoms, for example, there's two real benefits in pensions freedoms. The first one is it just reignited enthusiasm in the marketplace, understanding what your options were at age 55, and you saw that business mix last year in terms of increase in drawdown business.

And rather oddly, you could always do that, but it just generated that interest in the marketplace in terms of people saying, okay, I don't have to annuitize, what shall I do next, and looking for advice was a then consequence of that. So the business shift you saw last year, I think you'll see more of that this year, pensions being a big market going forward.

The contribution point was well trailed, so they had 12 months of people knowing this contribution change was going to come. So again, the partnership were very active in that period. You'll see that all the way through to end of this tax year and it will carry on. Beyond that, we'll see what happens in the tax year. So the crucial thing for going forward will be what changes are going to be announced in the budget. And as David said before, whether it's EET or TEE, we'll deal with that when we get the news about it in middle of March.

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

Now, you mentioned Canary Wharf and the academy. They're unrelated. So Canary Wharf isn't about the academy. Ian, just to even this up nicely, can talk a little bit about Canary Wharf and why we are doing Canary Wharf. And cost wise, Andy can come back and talk about how that finds its way into our expense overhead.

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

Yes. Canary Wharf was in response to the pressure we've got on our existing London premises. We've not opened or expanded into London for 15 years any new premises or space. So opening Canary Wharf allows us some new floor space to house new partners, graduates from the existing academy looking for office space. And that also, tied with one or two other changes in the Kingsway office and the City office, mean that we've kind of got a bit more room to breathe in London than we had previously.

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

Thanks, Ian. It's actually the first time we've expanded our office premises anywhere in the country for 15 years. It's quite a significant move in terms of the way in which the partnership is developing and the volume of people that come out of the academy that we need to house. Andy, do you want to talk about the expense side of -?

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

Yes. So as you all know, our standard sort of working assumption is establishment costs increasing by about 10% a year. Our budget for 2016 will see those establishment costs increasing by 11% as a result of the new premises. In terms of the academy, we expect the academy to be around £7.5 million investment next year – this year.

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

Okay. So can we come on down through the middle and just – thank you.

Q - Lance M. Burbidge {BIO 3978332 <GO>}

Thanks. It's Lance Burbidge from Autonomous. I think I've got three questions as well. Firstly, in a simplistic calculation, if you look at gross flows they were up 17% year on year, but partner remuneration was up only 8%. So does that mean that people are doing more for less? So I wonder if you could comment on that.

Secondly, on the dividend payout ratio of 80%, are you intending to drop that to 75% this year? So does that give you a headwind? And then could you just expand on the benefits of the new retirement account, what it delivers in terms of flexibility?

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

Okay. Just pick up the dividend, I'll save Andy, because it's a quick one, payout ratio 80%. If you look through the FSCS levy, it's 76% payout ratio. So we are there or thereabouts with our guided ratio of around 75%. And we've said quite clearly we expect that dividend to grow in line with the underlying growth of the business, so that there is the normal trajectory on that. On gross inflows versus partner remuneration, not something I've picked up. Ian, I don't know if you want to just -?

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

I think there's a situation where we're beginning to see a small amount of discounting at point of sale by partners, so they would argue they're having to do more for the same.

Analysis of that shows it involves probably maybe 20% of cases and the discount is approximately on average about 20%. That may well be with the larger pieces of business that there's a bit of price pressure there. So that is partly to do with the disconnect between the gross inflows and the partner remuneration.

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

Could I just add, sorry, one extra bit on the dividend, because I covered it in my talk. We also have the gestation period, so that money is coming through in 2016. And we also have, as we've talked before about, a dividend buffer. So we have the ability to allow the payout ratio to increase for short periods of time. In fact, if you go back to 2008 and 2009, that's exactly what we did.

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

Shall I pick up the retirement account?

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

Please.

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

So if you look at pensions, the evolution of pensions, because of the way the legislation has evolved over the last 15 years, 20 years, your ability to accumulate and then de-accumulate money was in different contracts and so it's quite a lumpy process and we've always known that.

So we can handle pension flexibility, but it isn't as smooth as you'd like it to be, and the retirement account brings everything into a single account. So you can accumulate, de-accumulate, mix and match, and you don't have to move physically from one contract structure to another contract structure. And it just makes it a much better client experience and partner experience, and that's what's going to happen.

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

Come on down, yes.

Q - Andy Hughes {BIO 15036395 <GO>}

Thanks very much. Andy Hughes from Macquarie. Given your comment you made about drawdown and moving from one contract to another, is Lance's question also distorted by moving to drawdown? Doesn't that move money into the gross flows but doesn't impact partner remuneration?

The second question is I think you said the performance data you showed was net of all charges. Does that include the bid/offer spread and partner remuneration, et cetera, or because the financial express data we normally see is just fund management charges? Thank you.

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

Investment performance?

Q - Andy Hughes {BIO 15036395 <GO>}

The investment performance data, yes.

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

Yes, yes. David, do you want to pick that up on the -?

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

I missed the second part. I didn't understand what you said at the end there, Andy, so can you just clarify that?

Q - Andy Hughes {BIO 15036395 <GO>}

So when I look at the financial express data, which shows fund performance, it normally misses out the bid/offer spread and the other contract related charge, and I think you said that that data was all charges. And when was the commencement of these things again, remind me? Was it three years ago or -?

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

All of our fund data is charge data we use. Financial express is just a window through which we push this data out there. We always show our data from the client perspective after all charges. So the data the client sees on our holdings, for example, is their net return after costs, and we take that back to the client report.

So I think that's very clear in terms of how we compare. I think the challenge which people have in the industry is because we're vertically integrated, all of our costs are wrapped into a single annual management charge, whereas if you're a client going through a broker and a platform your costs are in different places and you can't see net of all costs what actually has happened to your return on your account.

Q - Andy Hughes {BIO 15036395 <GO>}

I guess what's surprising me is you're showing a 6% annual return for the defensive fund gross charges, if you think the charges are 3% a year, roughly, which doesn't seem clear.

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

They're not, though. So I'm very happy to pick it up and take you through it outside, but that's not the right charges anyway.

Q - Andy Hughes {BIO 15036395 <GO>}

Okay. And the distortion from drawdown?

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

I don't think, 80% of our drawdown business is external coming to SJP today. So there's no distortion in terms of gross flows. I think the challenge going forward for existing clients in their retirement account is that that won't count as new premium income going forward. That's 20% of the business. So the bulk of the business and a growing part of the business is the external stuff coming in.

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

Thanks, David. Yes. So we'll just come on down through.

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

Jon Hocking from Morgan Stanley. I've got three questions, please. Just on the dividend, I can see you on the sort of 75% cash payout. Now we've got the Solvency II numbers out of the way, I just wondered to what extent you expect that Solvency II ratio to grow over time and are we now in a position where we can start thinking about special dividends in the medium term, given we're still retaining cash every year. That's the first question.

Second question, on the embedded value numbers, there's a few operating assumption changes. The unit trust business has got a big positive which I think is partly expenses. I just wondered if there's anything else in that number. And then the life business has got a small operating assumption change which is negative. I wonder if you can explain that.

And then just finally, on Rowan Dartington, you say you're going to launch the product through the network next month. I just wondered how you're going to do that. Is this going to be something where your normal client is still going to be in the model portfolio world and it's going to be something which is for specific clients, for new partners that maybe have joined, or is it going to be something to be available as a mainstream option? And what is the margin consequences of that? Thank you.

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

Okay, so two. Andy, do you want to pick up the financials? And David, who is overseeing the Rowan Dartington transition, can pick up the second point so.

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

Okay. If I do the EEV one first, this all relates to the new tariffs that have been agreed with the third party administrator. So I think, from recollection, the tariff in the life company is going up marginally and the tariff in the trust company is coming down by more, and hence you get different experience in those two.

In terms of Solvency II and the dividend, we will continue to show a cash result which will look incredibly similar to what you see now. But rather than being a movement between two Solvency I balance sheets, it will be a movement between two Solvency II balance sheets. So the underlying cash will continue to behave and generate it how you're familiar with.

One of the slides I showed at the end there says that we've got £92.3 million of liquid assets over and above what we believe is the appropriate Solvency buffer, and we will be reflecting on that and having discussions on that throughout this year and into next year.

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

On Rowan Dartington, I guess there's probably three points to make. The first one is the big opportunity of St. James's Place and Dartington working together is the new market that we don't touch today, which is parallel to the market that St. James's Place has always operated in. And estimates vary between £300 billion and £400 billion of assets sitting in what is a fragmented world of stockbroking type portfolios.

We believe that with our distribution capability through the partnership, we can introduce that type of business to our clients and indeed find more clients in that marketplace than would otherwise want to come and talk to St. James's Place. So it's an additional service, an additional market.

The second point to make is we've been doing this for a little while by introducing business in the past for people like Quilter Cheviot in a sort of less focused way. Now we have Rowan Dartington in the Group, we'll make this much more available as a toolkit for the rest of the partnership who have clients for whom it's appropriate. And that's the third point. Not all clients will be appropriate for this.

So we start the rollout in March with about the first batch of 50 partners, and we'll gradually increase the number of partners that have become accredited in this area. And they will be the ones that have got business experience or are more likely to have clients who want this service alongside the existing SJP service. It's a very complementary way to develop our business. It allows us to have a deep relationship with some clients and access new clients who otherwise we couldn't access.

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

And the portfolios - are those portfolios constructed from funds which have been approved in the normal way or are those single name stocks, or can it be anything?

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

The Rowan Dartington setup is very similar to - currently very similar to most stockbroking setups in the UK. So you end up with direct equities in UK. It could easily end up with pooled funds for non-UK equities. They select their own pooled fund range using their own investment committee inside Rowan Dartington. As we take this journey together, we will bring together the investment philosophies of the two groups so that there is a single unified presentation to our client about how these things sit side by side.

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

Thank you. Right. Two more in here.

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

Alan Devlin from Barclays. Two questions. First of all, it wasn't clear on how the dividend buffer and the management solvency buffer align. Is the dividend buffer within that, or is that over and above?

And the second question, you haven't mentioned your international operations today. And Asia was going and also I saw in this morning about opening a Middle East office in the next couple of years. Thanks.

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

Okay. Well, let me deal with the second one first and then Andy can come back to the dividend buffer. Asia is going fine. It's going absolutely fine, as I've tried to talk about at the end in terms of recruitment, about growing that distribution. Distribution grew by 60%, big number. It started from a small base in 2015. We've got similar ambitions for 2016, and bit by bit we are making the right sort of progress in the Far East.

And so far as the Middle East is concerned, we are still in exploration territory, so we're talking to some people out there. We pretty much deliberately slowed it down because we've got quite a few things that we want to focus on, the existing Asia. Rowan Dartington wasn't on the table 12 months ago and so there are things for us to do. So the Middle East proposition, if we go ahead with it, as I said in my CEO statement, will be early part of 2017. We'll carry on the exploration this year and see where we get to. So, no fundamental shift, just a different order of priority. Gave you time to think about the dividend buffer.

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

No, no, no, no. I guess in hindsight using the word buffer for two different things probably wasn't the brightest thing to do, and they are distinctly different. So if you look at the life company, within the life company, as I showed on one of the slides, the liquid assets were £243.2 million. Inside the life company, we believe we need to hold a Solvency buffer of £150 million. So that's a Solvency comment.

Then outside of the life companies and the Group, we've always held a cash reserve in order to smooth out the dividend, which we've called the dividend buffer. But it's totally different. It's a cash reserve. And for instance, what we did in 2008 and 2009, we were able to use that dividend reserve, which is what I shall call it from now on, to help continue paying the dividend. Is that clear?

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

Yes.

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

Thank you.

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

Okay. Oliver here and then we've got two down the front.

Q - Oliver George Nigel Steel {BIO 6068696 <GO>}

Oliver Steel from Deutsche Bank. I apologize for missing the first part of your presentation, so maybe you said this, but the Bluedoor delay, is that going to cost you any more in development costs in 2016 or is that at least out of the way?

And then secondly, the intergenerational project, are you expecting that to lead to a lot of extra inflows or is it really just adding fee revenues around the existing outlets?

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

I think it's – if I deal with that one, Andy can talk about consequences of Bluedoor in terms of the finances. But the intergenerational, it's about deepening the relationship with our clients, frankly. People will talk about the next generation. As our client's age and some of their wealth is passed on to the next generation, we want to engage with that generation. Some of the intergenerational services are about added value to our partners and to their clients. That's the main motivation.

I wouldn't see it as being additive in the sense of its going to add to the already sort of ambitious 15% goals that we set ourselves, but they'll definitely be supportive of that delivery. And not inconsistent with the way in which we are encouraging next generation people into our academy and bringing through a younger contingent of advisers to marry up with some of these intergenerational opportunities. So that's what that's about. Bluedoor taking a bit longer and costing a bit more, Andy?

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

Yes. The Bluedoor costs you see are essentially people times time. And therefore, if the project is taking longer, people times time means that there is also costs coming through in 2016. And we would expect them to be probably of a similar amount to 2015.

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

We've got two more questions at the front here, and then we'll -.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Thanks. It's Andrew Sinclair from Merrill Lynch. Firstly, just on your pensions gross flows, just to get a bit of clarification. Firstly, how much of the pensions gross flows would typically be transfer values?

And secondly, as they actually come into St. James's Place, how many of them would be getting a 40% or 45% actual uplift at that stage? Just final question would be on the money management accounts, just wondered if you could give us an update on what's been seen there.

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

Sure. David, do you want to take the pensions? I'm not sure I understood the 40% bit -

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

I'll handle it, sorry.

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

Yes, yes.

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

Pensions transfers, they come to us as gross funds from another pension scheme, so there's no uplift in terms of tax relief. It's already in the pension scheme before it comes across. And if you look at our pensions single contributions, which includes transfers, something like 75% of that business is external transfers coming to SJP. As opposed to cash, rather, and in others cash.

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

But are people contributing...

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

Right, okay. Just to avoid any misunderstanding, when you make a contribution to a pension scheme, let's say you want £100 to go in your pension scheme, you give us £80 and we get £20 tax relief, basic rate tax relief, from the revenue, okay. If you're a higher rate taxpayer, you get your extra tax relief through your tax code in your tax account. We get our gross flow at £100, £80 from you, £20 from the revenue.

So when we come to talk about pension tax changes next March, don't get spooked by going from 45% higher rate relief to basic rate flat, say 25%, because our net flows and gross flows don't move. Your tax code changes. So it's different for you; it's not different for SJP. I'm happy to take you through the maths on that.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Thank you.

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

On the money management account, yes, a bit like we're going to with Rowan Dartington, because such is our way, we play into these things quite carefully, testing the service and the whole experience from a client perspective. We limited our entry to those people who have more than £0.5 million invested with us, which is a natural sort of brake on the rollout.

Last figures I saw, over £50 million of secured facility has been made available and nearly £40 million of that has been drawn down. So people are using the product. We will take the level down, if we haven't already done so, to £0.25 million of funds under management. And it's through Metro Bank and that relationship that we'll explore the sort of intergenerational product, mortgage product that we talk about to enable it, parents or grandparents to help their offspring and their dependents to get on the property ladder as appropriate, with joint mortgages and guarantors made easier for them. So, relationships going well, gently, gently as we crank these things up.

One more question there, I think, and then I think we'll – and David's at the back. David, we'll give you the last one.

Q - Paul De'Ath

Yes. Hi there. Paul De'ath from RBC. Couple of things. Just on the Solvency II ratio, to go back to that, I appreciate the ratio itself isn't necessarily the number you want to focus on, but some people will obviously look at it and you'll need to manage that number to some extent. Are there any stresses that you've applied to the ratio as you go through it that it's particularly sensitive to, because clearly the funds under management dropping it's not – or it's positively sensitive to, but what's the biggest risk scenario for that ratio?

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

Sorry, go ahead.

Q - Paul De'Ath

And then just the second question, just going back to Bluedoor again and the teething problems that you mentioned that are now fixed. But do you feel you have had any reputational damage through the process of hitting those teething problems, any clients who are upset about what's happened or anything like that?

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

Well, again, let me get rid of the second question. I'll deal with the second question first. Getting a little bit of media coverage over a client whose pension payment, which ironically is nothing to do with Bluedoor, get some coverage on that, was not a great moment for us, but it was one little moment. We then had some typically IFA trade press that liked to take the opportunity to have a little pop, I guess, and that's what they do. And so you saw little lines in some of the wires that talked about systems crashing; they didn't. They talked about clients being left stranded; they haven't been.

There's a bit of – on this particular subject of pensions, there is an automated report that the industry is sharing called the option system, which actually reports the length of time it takes for pension transfers to pay or pension freedoms to pay. We are one of the quickest. Our track record that came out just last week is nine and a bit days. You look at some of the companies and the graph goes up like this, with companies taking much, much longer.

So it was embarrassing, don't like it. One of the things we were really keen to see is how our clients reacted in the wealth account. Every year for the last six years, we've gone out with an annual wealth account and a survey to every single client saying tell us how we're doing, and you saw the results. 95% would recommend us, dropped a couple of percent from last year, but no material comments on the administration.

It's one of the real joys of our partnership model. Partners are where we are having the issues with, because partners are having to work harder and deal with some of the stuff that's come out as a result of those teething problems. I suspect the vast majority of clients are protected from this, immunized from it. So I don't really think reputationally there's been any hit on us apart from the odd one or two liners on these wires. So Andy, do you want to take the -

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

Yes. We actually provide some sensitivities on Page 37, if you want to look at them later. So we do three. One is a 10% reduction in funds under management, which I've covered there. The other was a 10% increase in the lapse assumption. And again, there the ratio goes up. So the current ratio is 151%; 10% reduction in funds under management, the ratio is 153%; a 10% increase in lapse assumption, the ratio is 156%; and a 10% increase in renewal expenses, the ratio goes down to 149%. Now, in each of those three scenarios, the net asset number of £722.4 million doesn't move.

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

Okay. I'm going to take one more, Andy. You've had a – I'm going to take David and then we'll – really nice, positive question there to end proceedings on, so no pressure on you.

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

Well, I'll do my best. David McCann from Numis. Another one on the dividend, I'm afraid. You talked in the guidance that we should look to the underlying growth of the business. Now, given some of the cost pressures you've talked about and given that obviously markets have started in a difficult way this year, obviously a bit of pressure on the cash earnings number anyway this year, compared to what it might have been. So, looking at that number, should we be more looking at, say, the organic growth of the funds or just the funds under management growth, or is the cash earnings still the best proxy for the dividend growth we should look for? Thanks.

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

I mean we talk about the operating performance of the business, so there is the organic growth in new business. Underlying cash is an important point in there. But let's just do a scenario for a moment. New business is up 15%, but because of markets are difficult underlying cash is only up 3%, then we would have regard to the 15% performance in the business.

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

Okay. That's clear. Thank you.

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

Okay, let's wrap it there. Andy will pick up any other points outside, because the guys will stay around for coffee. We've got Roger Yates, Simon Jeffreys, Sarah Bates from the Board here as well. So I'm sure they'll be very happy to take any questions, particularly on Solvency II, because they've swotted up on it really well over the last two or three weeks.

Thank you for your time, thanks to my colleagues, and we'll see you outside for a coffee. Thank you.