Q4 2016 Earnings Call

Company Participants

- Andrew Martin Croft, Chief Financial Officer and Executive Director
- David Charles Bellamy, Chief Executive Officer & Executive Director
- David John Lamb, Executive Director and Managing Director
- Ian Stewart Gascoigne, Executive Director and Managing Director

Other Participants

- Andrew Sinclair, Analyst
- Andy Hughes, Analyst
- Barrie Cornes, Analyst
- Benjamin Bathurst, Analyst
- Gordon Aitken, Analyst
- Lance M. Burbidge, Analyst
- Oliver George Nigel Steel, Analyst
- Ravi Tanna, Analyst

MANAGEMENT DISCUSSION SECTION

David Charles Bellamy {BIO 14025555 <GO>}

Good morning, ladies and gentlemen. Welcome to our Full Year Results. And as you know, two announcements this morning. One about me giving the market and yourselves early notice of the change at the end of the year and one about our financial results. And because the change is not to the end of the year, I want to keep today very much as business as usual. So we'll focus on the results and I'll hand over to Andy in a few minutes to do that. Then I'll come back up and talk about the business generally and just fill you in on some of the other developments in the business and give you my take on where we are. And then, David and Ian and Andy will join me on stage to take Q&A as we normally do these events.

I'm delighted to have some of our board here today, Sarah, Roger and Iain are here with us today as our entire - pretty much our entire - I think there's one not here, he's on a holiday - executive team. So we've got a pretty much a full house of the senior team here today, but we're more than happy to continue the dialog after the presentations.

The agenda is up on the screen. Andy will do a résumé of the new business results that we released on the 26th of January and then talk about the financial performance and then I'll come back up.

So without further ado, please welcome your soon-to-be new Chief Executive Officer, but currently the CFO because there's only room for one, Mr. Andrew Croft.

Andrew Martin Croft {BIO 5711239 <GO>}

Thank you, David, and morning, everyone. I'm not allowed to wear the yellow tie just yet, but we'll get there. I'm going to start this morning with a recap of our January new business announcement, followed by review of the EEV and cash results. You may be relieved to know that I'm not going to spend any time on IFRS result, albeit there are a number of slides at the back of your pack, should you want to look at them. I will then cover solvency, and in particular I want to cover a change in presentation before finishing on the dividend.

So let's look back at the January new business announcement. Total single investments at £11.4 billion were up 23% over the year. And if we look at the analysis between the first and the second half, you will note that growth accelerated over the year. This despite the Brexit and Trump effects.

Secondly, looking at just pensions business, you will see even higher growth and this change in business mix has had an impact on the financial results as you will see later. Net inflows was £6.8 billion, up 17%, and representing some 12% of opening funds under management, which themselves ended the year at £75.3 billion, a new record and growth of 28%.

We also provided an update on the size of the Partnership with the total number of qualified advisers at the end of the year being 3,415, up 10%. This strong result has once again exceeded our medium- to long-term target of 6% to 8% growth. And if we look back over recent years, we will see the growth has consistently exceeded our target with 2016 being the fifth consecutive year of double-digit growth.

Now, 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 2017 and future years.

These new business, funds under management and adviser numbers are key drivers of the financial performance. So let's look at the results starting with the familiar breakdown of the EEV.

A few comments on the key highlights. New business contribution for the year was £520.2 million compared with £440.7 million. This is an increase of 18%, slightly lower than the new business growth due to that change in business mix that I covered earlier. There was a small positive experience variance of £1.4 million compared with the far more significant prior year variance of £78.1 million, which you will recall reflected the value placed on historic tax losses.

There was also a positive £18.6 million operating assumption change during the year compared to a positive £44.1 million for 2015. The positive impact in both years principally relates to changes in pension retention assumptions, reflecting a continued positive experience we are seeing. The 2016 assumption change relates specifically to drawdown business.

The addition of Rowan Dartington within the embedded value calculation has contributed a positive £21 million, whilst distribution contributed a negative £25.9 million compared with a negative £21.2 million for 2015.

Let's have a look at the breakdown of this distribution result. Firstly, both years were negatively impacted by an elevated FSCS levy. We remain hopeful that the levy will return to more normalized levels in coming years, particularly given the current FCA consultation However, we are now expecting a third year of an elevated levy for the contribution year 2017/2018. And as you remember, this will be booked in full within the first half numbers.

Secondly, the profit impact from our investment into the Asian distribution was £13.2 million compared with £7 million. The depreciation of sterling has unfortunately negatively impacted this number. The Asian business is developing well. And during 2016, we doubled the number of advisers to over 100 and exceeded £130 million of new funds under management.

Now, this is an investment for the future and the operations will continue to consume capital for a number of years as we continue to grow the number of advisers. Once we have achieved critical mass, the investment will start to positively contribute to the embedded value.

Lastly, adjusting for both these items, the distribution activities made a small profit in both years. The back office development cost £20.9 million in the year compared with £18.1 million. The change program has continued to progress well. In the final quarter of 2016, we launched a new retirement account and are currently in the process of rolling this out across the business. We then plan to migrate our existing book of pensions business later this year before launching a new investment bond on Bluedoor and migrating the existing bond business during 2018.

And, finally, other contributed a negative £47.8 million compared with £41.9 million. The principal movements between the two years relates to the share option cost together with associated National Insurance, our continuing investment in the Academy, Foundation matching and miscellaneous other items. And taking all these points into account, the operating profit for the year was £673.6 million compared with £660.2 million.

The rise in global stock market during the second half of the year and the currency impact from sterling's depreciation on our overseas assets has provided for strong investment return for our funds, which was translated into a positive investment variance of £537.2 million. This investment return together with the small economic assumption change provided for a total pre-tax profit close to £1.2 billion compared to £636.7 million for 2015. This is the first time in our history that embedded value profits have exceeded £1 billion. So, another milestone and another record at the start of our 25th anniversary year.

The EEV net asset value per share at the end of 2016 was a smidgeon over £9, an increase of 22% over the year. This continues the recent trend of an increasing net asset value per share with compound growth with 19% per annum. The NAV has now increased by over 230% in the five years since the start of 2012. And unsurprisingly, this more or less mirrors the growth we have seen in funds under management over the same period. So quite simply, growth in funds under management equals growth in NAV equals growth in shareholder value.

Now, I mentioned at the half year that we would consult on potentially dropping embedded value. The general feedback from investors, however, was a desire to see us continue to provide embedded value information. We will therefore do so, albeit we will provide summarized information within the financial review rather than the full supplementary accounts. It saves a bit of money.

Moving now onto the post-tax cash result, the retained net income from funds under management at £508.9 million was up 16%, in line with the average funds under management during the year. We continue to earn a blended fee of 77 basis points post tax and are not seeing margin pressure. The reduction of fees from the funds in the gestation period was £189.9 million, providing for the net income from funds of £319 million, up 15%.

The margin arising from new business was £49 million compared with £47.8 million for the prior year. Importantly, this figure is dependent not only on business volume, but also business mix. I highlighted earlier that we have experienced a larger proportion of pensions business, and similar to the half year, this has reduced the contribution arising. It's also worth remembering that this contributor to the overall result is dwarfed by the annual management fees of over £500 million.

The combined operating expenditure in the year was £146.3 million compared with £130.9 million. The growth in expenditure was slightly ahead of expectations, principally reflecting the higher costs associated with the growth in adviser recruitment that I touched on earlier. This should in no way be seen as a disappointing outcome. In fact, the exact opposite, as it is laying the foundations for future new business.

Frustratingly, the FSCS levy reduced the cash result in both years with a £13.7 million impact in 2016. The interest income contributed £9.8 million in the current year and there was a benefit of £12.6 million from utilization of capital losses. The latter remains a source of income that will continue for the foreseeable future with a benefit still to accrue of £99 million with an expected utilization of some £8 million to £10 million per annum. The negative £4.4 million miscellaneous contribution was at a similar level to the prior year. So the total post-tax operating cash was £226 million, up 16%. This is the business as usual cash result.

Now, as well as our ongoing investments in growing the Partnership and the business as a whole, we have and will continue to invest in a number of strategic initiatives, the Academy, our Asian operations, Rowan Dartington, and other areas. The combined impact of these investments on the cash result during the period was £26.5 million compared with £13.5 million. And after taking account of these investments, the underlying cash result for the period was £199.5 million compared with £182.1 million. Finally, there was a cost of the investment into the back office infrastructure and other miscellaneous timing variances, providing for a total cash result of £175.4 million.

Turning now to the solvency position, and I would like to start with a presentational change. We have reassessed the unit liability to match the encashment value of client investments. This gives a better and more intuitive estimate of the liability going forward and is consistent with the Solvency II principles. The change increases the Solvency II net assets by £267 million, but with a corresponding reduction in future margins, the VIF. And, therefore, in regulatory terms, there is no change to the Solvency II free assets.

Now, clearly, a presentational change such as this makes no difference to management's view of the solvency. So we also offset this reduction in liability with an equal but opposite increase in the Management Solvency Buffer. Again, there is no change in the management free assets.

Let's just have a look at this presentational change by reviewing the before and after position. Here is the position before we made the change, and here is the position after the change. As you can see, there has been an increase in Solvency II net assets of £267 million, a corresponding reduction in the VIF and an increase in the Management Solvency Buffer of the same amount, leaving all other figures unchanged.

Now, I'm afraid to say that this change will impact your modeling of the cash result, as there was a change to the timing of cash emergence. Now, the good news is that, for future new business, cash will emerge earlier. And had the change occurred at the start of 2016, then the operating, underlying and total cash would have been some £25 million higher. There are also some changes to the IFRS result, albeit the impact is neutral. And you can find a spreadsheet on our Investor Relations site to help you navigate these changes.

And let's also consider how the above change will develop further in 2017. As the estimate of the unit liability has reduced, we no longer need to hold matching equivalent assets. Consequently, we are in the process of disinvesting excess assets from our funds above that required to meet the encashment value of client investments. Once this process has been completed, we'll be holding cash rather than equities and other assets, at which time the group's risk profile will have reduced.

Consequently, there will be a future reduction in the solvency capital and risk margin requirements, and at this time, the board will also reassess the level of Management Solvency Buffer. Now without preempting the board's decision in this respect, I would expect a small increase to three assets.

Finally, on solvency, let's return to the previous slide. The Solvency II free assets at the end of 2016 were £952 million whilst the management free assets were £543 million. So in both measures, the solvency position remains very strong.

I'm now going to finish with talking about the dividend. At the half year, we increased the interim dividend by 15% and reiterated our intention to continue to grow the dividend in line with the underlying performance of the business. As you have seen, the final six months of the year were strong period of growth for the business, not only with the 23% increase in gross inflows but also the continued strong adviser growth, albeit the latter came with higher costs. Therefore, supported by the strong performance, we are proposing to increase the final dividend by 20%, providing a full-year dividend of £0.33, growth of 18%. This represents a full-year payout ratio to the operating cash of 77% and a payout ratio of 87% of the underlying cash. Over the last 10 years, we have grown the dividend even during 2008 and 2009 with compound growth of some 25% per annum.

Looking forward, we fully intend to continue our policy of increasing the dividend in line with the underlying performance of the business. We also have the comfort of the £25.1 billion of funds within the gestation period, which will begin to contribute to the cash result as each cohort reaches its seventh year.

So, that's me done. 2006 (sic) [2016] (18:54) was another year with strong operating performance, with the key highlights summarized on the current slide. The key takeaways for me are the continued strong solvency position, the 20% proposed increase in the final dividend, and the £1.2 billion of EEV profit.

So, thank you for your attention and I now hand you back to David.

David Charles Bellamy {BIO 14025555 <GO>}

Thank you, Andy. And now onto part two, this time last year, I started my presentation by saying I'd like to reflect on our results by putting them into some sort of context. So I'd like to do the same again this morning.

Andy started his presentation with the 10-year dividend story. So let me start with some of the drivers of that story by looking at funds under management over the same period. These first three charts, they're familiar to you, show the gross inflows over that 10-year period; next, the net inflows over the same period; and finally, the growth in our funds under management during those 10 years.

As I've said before, there's a reassuring predictability and consistency about this business and its growth, and I think those three charts demonstrate that quite clearly. Last time, I also drilled down beneath the yearly figures to share with you the quarterly pictures for net inflows over the last 40 quarters, i.e. the last 10 years. Here's the chart I previously showed you, updated for the four quarters of 2016. Net inflows for every single quarter in the last 10 years and through some very volatile markets.

Now, if we drill down a little further and look specifically at 2016 by month and compare our net inflow results to the five platforms that provided data to The Investment Association for the year, we see a very interesting pattern emerge. And one that so very clearly demonstrates the strength and effectiveness of the St. James's Place Partnership and our business.

So here's the collective results of those five major platforms month-by-month. This is as reported to The Investment Association. You'll see what happened in May through to July, the Brexit effect. Almost £700 million of net outflows in June alone. And again, in October, a significant drop in net flows. I call this the Trump effect as I'm sure investors were anxious about the U.S. presidential election.

Now, let's have the SJP performance through the same 12 months. Far from outflows in June, we saw £0.5 billion of net inflows as we saw in virtually every other month or two, such as the effectiveness and resilience of our business.

So, what makes us so different? Well, in simple terms, it's our two major USPs, the St. James's Place Partnership and our distinct approach to investment management, managing clients' investments. I'll come back to the Partnership a little later. For now, let me just say a few more words about our investment approach.

Firstly, as most of you will know by now, this is my favorite slide from our investor pack. We have a very rich and diversified portfolio of active fund managers and asset classes. I truly believe there isn't a better researched, more diverse, more complete and impressive selection of funds and fund managers available in the UK retail market today.

For those of you who attended our new company meetings a few weeks ago, you'll have heard me say that our fund managers are sourced from the farthest field as Salt Lake City to Sydney, from Copenhagen to Cape Town, from Hong Kong to Henley, illustrating the diversity. So I won't repeat that today.

Of course, what matters though is how client portfolios, that's the client portfolios of those fund managers contribute to perform (22:40). And one way I can illustrate that is by comparison to the ARC Private Client Index. Here's how our model portfolios have performed compared to that index over just one year. Pretty good outperformance in the core funds. And for reference, these are all the companies that make up the ARC Index.

And finally, here's the comparison over a five-year period, which is pretty much the minimum period we would expect clients to invest with us. I hope the charts speak for themselves. And remember, these returns are all net of charges.

Whilst on the subject to charges, a lot has been written on this subject in recent weeks. And so it's only right that I speak about it today. Firstly, as some of you will know, we use Grant Thornton to review the market every six months to ensure we remain competitive when it comes to total charges. In other words, the sum of advice costs, fund management costs, platform costs, admin costs and the other associated charges.

Following their latest review, this chart shows in reduction in yield terms how we compared to our competitors in 2016. We're the blue bar to the right of the chart. On the Grant Thornton analysis – the Grant Thornton analysis clearly demonstrates that we are highly competitive in that advisory market space.

Secondly, our scale and the predictability of our business, the flows and the high retention of such that we can ensure our clients benefit from the most competitive rates in respect of the tariffs charged by the managers who manage our client money.

The recent FCA study into the asset management industry questioned, amongst other things, the competitiveness of the industry's pricing model and highlighted the fact that the majority of active managers seem to charge between 75 basis points and 100 basis points per annum and, in some cases, of course more. It quoted the average annual cost of managed equity funds available to UK investors as 90 basis points. This is on the basis of ongoing charges figure, the OCF.

For our range of managers and funds, the equivalent average cost paid by our clients is 43 basis points per annum, considerably less than the average in the market. That's because we use the scale and consistency of our flows to obtain more competitive rates and pass the benefits of these rates entirely through to our clients.

On a more detailed level, this next chart illustrates on a fund-by-fund basis the rates we achieved compared to the normal retail rate. Essentially, our scale enables us to deliver institutional scale funds to our fund managers, but with all the characteristics of retail funds. This benefits our clients directly as they effectively get wholesale rates in the retail market.

Clearly, some of the larger platforms may negotiate a further small discount on the figures quoted in the FCA report, but I doubt they will compete with SJP's pricing. And that's simply down to the predictability of the flows and the retentiveness of our business as demonstrated by what happened around that Brexit and Trump movement that I mentioned a little earlier.

This is the strength of our relationship-based advice focus. Our partners will speak to their clients at times like these to reinforce one of the fundamental messages in our approach and that is what really matters is that they invest for the medium to long term and that it's time in the market as opposed to timing the market that counts.

And to reinforce that point, here's a very timely chart published in the FT just a couple of weeks ago. It illustrates that missing just the 10 best performing days in the last 20 years would have cost an investor 170% of their returns. The strength of the relation-based advice focus was also illustrated in a report from Vanguard a year or so ago that they refreshed last year where it suggested the benefits of an adviser were seen at times of market volatility and by helping avoid those behavioral traps as well as through improving tax planning, improving not just net of charges returns, but net of tax and charges returns. The conclusion was such advice could add as much as 3% a year in net returns to the clients.

Finally, on the subject of charges, the other point that was raised recently is one of transparency. That's a feature of the asset management study as well as some of the press articles. We've always been clear that it's important that our clients understand the charges and have them explained to them and confirmed in writing before they invest with us. We own the vast majority of adviser businesses, having made a future of our charges on the website for that very reason. Having said that, we've now recently updated our website to reflect the charging structure for all of our wrappers. That's our bonds, our unit trusts, ISAs and our new retirement account. And that website has been live now for just over a week.

In the end though, the people that determine whether our charges are competitive or not are our clients. Typically, they will look at them through their own lens, as I suspect you and I would, and that's through the lens of value for money. That's why every year through our annual plan survey, we ask them that very question, do you feel that the service you received from St. James's Place represents value for money? This year's responses are still being processed, but we've analyzed over 20,000 responses in February and saw a pretty good sample. And they tell us that 99% of clients believe that our charges represent reasonable, good or excellent value for money with 82% of them saying good or excellent and that's up from 79% in last year's survey.

And in the same survey, when asked given everything you know about St. James's Place, would you recommend us to others? 97% have said yes to that question. For those of you new to St. James's Place, I should just say that the survey I'm referring to is one that we carry out each year alongside the wealth accounts that are sent to our clients in January and early February. Every client, every single client gets a questionnaire on a replied, paid envelope and is invited to complete if they want to. And whilst one or two of the questions change each year, we keep some of the core ones consistent so as to monitor trends.

And on this next slide, you'll see some of the key questions over the last three years. And during that period, we've had fairly consistent and what I ranked as excellent scores. Separate to our own survey, we also use an external firm to run a survey through a much smaller sample of clients and compare those results with their industry results. They have a control group. This chart shows those results, again a very recent survey. And whilst different questions and slightly different scoring, the underlying message is clear. We compare extremely well to the industry that our clients value what our partners do for them. Encouraging stuff I think, an evidence of a company that's very engaged with its clients.

Turning to our other USP, the St. James's Place Partnership, we couldn't be happier with the way it has and is developing today. Long gone are the days of sole traders on a product process (30:03). Today, we have 2,300 that we call partners, but are actually small to medium enterprises, employing a further 1,100 advisers and some 5,000 support staff to help provide their clients with a first rate service. 90% of them operate from their own premises from as far north as Aberdeen and Inverness, to St. Ives, Penzance (30:26) and all the other corners of the UK.

We and they continue to attract more advisers year-on-year and their overall productivity is increasing in exactly the same way as we would expect. As Andy pointed out a little earlier, we entered 2017 with just shy of 10% more advisers than we had at the beginning of 2016, which bodes incredibly well for growth, not just this year but beyond.

Our Academy is also flourishing with over 70 graduating from the Academy in the last 12 months. This year, we have anticipated a further 200 people joining the Academy, and some 80 to 100 of those people who are in the Academy currently - in the 210 that are currently in the Academy, graduating to join the Partnership in the next 12 months.

What's also encouraging is the profile of the Academy intake as shown on the slide. Their average age is sub-40, 80% (sic) [87%] (31:23) of them hold degrees, 22% of them are women, and they have all chosen a career with St. James's Place.

Similar progress is being made in Asia where, as Andy said, we've seen the number of adviser double in recent times to over 100 now. Still relatively small, but on track to add material value to the group in the coming years.

And last but not least, our newly acquired discretionary fund management business, Rowan Dartington. It also has ambitious growth plans. Whilst operating a very different investment management approach, it's still fundamentally based on relationship-based advice. And that aims to grow its funds and retain funds under management in the years to come. In 2016 alone, it grew it's funds under management by 26%. And I know Graham has very ambitious plans for this year to take that to over £2.4 billion by the end of 2017. No pressure there, Graham.

Recruiting new investment executives is critical here to him too. And encouragingly, we saw that community grow by 20% in 2016, and we expect further growth of a similar nature this year. So, very strong growth in capacity and productivity across the board, the two key drivers of our business.

Let me end with just a few words about the marketplace. In our view, the demand for advisers has never been greater than it is today. You'll be aware of the market data about distribution, the scale of wealth in the UK. According to Datamonitor, 10 million people have over £50,000 of investible wealth and a significant number much more than that.

A large proportion of this wealth is owned by people who neither have the time, inclination, or confidence to manage it. And for many, life has become much more complicated too, setting aside the complexity arising from the various personal tax changes that have occurred in recent years. We've all seen or experienced the shift of responsibility for retirement provision from government or corporates onto individuals. And a sense of personal responsibility is clearly being realized now. We're all living longer, and with continuing the low interest rates, you can see that annuities don't offer the value for money that they once did, so leaving us with no collective sharing of the mortality risk either.

The bank of mom and dad is [ph commonplace (33:50) today as is the increasing bank of nanny and granddad, introducing into generational issues and further complicating family finances. Whilst divorce rates have stabilized, with fewer people getting married and couples cohabitating, financial and wealth planning is both more needed and more complex.

And the point I'm making is that in addition to tax and market complexities, we're also seeing some very different life and relationship experiences further complicating people's finances and increasing the need for and demand for advice. Pension freedom and financial advice market review both highlighted this fact, whilst at the same time acknowledging the increasing advice gap, i.e., too few advisers. Hence why we believe we are better placed today than ever to take advantage of the opportunities that lie ahead.

Yes, there are some threats too, but none that we don't believe we can manage. We have a very experienced and growing adviser team, a very compelling investment approach, a growing presence outside our core market, a very experienced management team and, as I said in our annual company meeting for those of you who were there, a very responsible business. A business that adds value to all of its stakeholders, to clients, to its shareholders, to its partners and the teams they employ, to its employees, its suppliers, to the communities we work in, to those less fortunate than us through our foundation and, of course, to the treasury and the economy as a whole.

2016 was our 25th year, as Andy said, and what better way of marking that anniversary than the figures we achieved during that year. Record gross and net inflows, strong investment returns for our clients reflected in the £15 billion growth in our funds under management, strong growth in our embedded value profits and operating post-tax cash result, leading to a recommended final dividend of 20%.

We entered 2017, as I said earlier, with 10% more advisers and our thriving Academy, which bodes really well for our future growth. As I said, I truly believe the group is in excellent shape and incredibly well placed for the opportunities that lie ahead, and I hope you all agree.

That brings me to the end of the formal presentation. Thank you for your time. I'd now like to invite David, Ian and Andy back on the stage to take any questions you may have.

Q&A

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

We have a roving mic or two. Who wants to go first?

Q - Andrew Sinclair {BIO 17749036 <GO>}

Thanks. It's Andy Sinclair from BofA Merrill Lynch. Three questions, if that's okay. Firstly, on the £25 million of extra cash that you mentioned that would have been generated under the universe of (36:48) changes in 2016. Firstly, can I take that that's fully enforced these changes for the start of 2017? And, secondly, just would it be fair to say that as long as sales and flows continue to grow, that figure could actually be even slightly higher going forward?

Secondly was just on Asian growth, actually two questions in Asia. Firstly on Asian growth, you've said you're now up to 100 advisers. Where do you expect that to go over the next few years? And secondly, on Asian expenses and actually strategic development expenses, you've given guidance for 2017 for Asian expenses and strategic development expenses. Just wondered if you could give anything for 2018. Will it continue or will that drop slightly? Thanks.

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

I think you should take this.

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

Okay. If I do the £25 million. First of all, it's not extra cash. It's timing, just to be clear. Yeah. Okay. And yes, it will occur in 2017 and it will be connected to the volume of business. So if the volume of the business is up, then it should be higher than £25 million. It won't be an exact pound-per-pound drive thing, but there is a relationship there.

On the second one for Asia. I think really importantly, this is a start-up business and I'm sort of reminded of where we were 25 years ago. You start to consume capital before you actually start to generate capital. Growth doesn't come free, I guess. So we expect the infrastructure to continue to expand in 2017 and 2018. We will then start to expect embedded value profits to emerge, and the actual cash return will still take a number of years after that.

David, I don't know you want to add anything particularly to the...

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

No. You're exactly right. And if you look at the pattern of recruitment we're seeing already in the first two years or so, we're very confident that we're going to achieve our recruitment (38:55) in Asia over the next three, four, five years as business grows.

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

Okay. Another one here. Can we just pass the mic along? Thank you. And we'll come to you next, Andy.

Q - Ravi Tanna {BIO 16926941 <GO>}

Right. Good morning. Thank you. It's Ravi Tanna from Goldman Sachs.

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

Hi, Ravi.

Q - Ravi Tanna {BIO 16926941 <GO>}

I have a couple of questions, please, for you. The first is just on the group borrowings, which have gone up by about £100 million and I noticed the kind of loans guaranteed by third-parties to partners hasn't really changed. So I was just wondering what the those proceeds are being used for? And the second one was more of a point of clarification. Andy, you mentioned 6% to 8% growth. Is that the kind of new guidance around adviser growth going forward as opposed to partner growth being 5% to 7% in the past? Thank you.

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

I'll let Ian answer the adviser one. On the borrowings, so we pay the interim dividend out of the earnings that have risen during the year, but in respect to the UK life company, which is about 80%, we don't get those cash earnings out of the business until the start of the following year. So we use the revolving credit facility or the expression I use as a dividend bridge.

Ian to the adviser.

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

Yeah. On total adviser numbers, I think we can safely look at a range between 6% and 8%. It has been well within the capability at the moment.

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

I think that the shift is largely because we are seeing businesses expand themselves, so partners are beginning to recruit their own advisers into their practices. So we just move that and dial up a little bit and focus on the adviser numbers and because it seems more relevant, it's what total capacity is all about really.

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

And, of course, we've done 10% (40:43) to the last five years.

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

What he is saying there is he thinks he is giving Ian a soft target and so that's...

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

I much rather over-deliver.

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

Yeah. Now, now boys. Andy?

Q - Andy Hughes {BIO 15036395 <GO>}

Thanks so much. Andy Hughes from Macquarie. A couple of questions. First one on the SCR benefit from the change that you're going to make with the asset allocation behind the unit linked funds, sorry. Is that about sort of 20% to 30%, i.e., the equity stress on the £267 million? So should we think about kind of £50 million, £60 million is the range for that and is that kind of rough mass? Could you update on sort of Bluedoor and potential cost savings that might arise, when we might expect those and what the impact on cash flows, et cetera, on that?

And I guess a final question is also on cash flow. So if I understand the change correctly, it benefits pensions and life insurance, not really unit trust. So does it even out the differences you've seen between the two products, i.e., if you sell more and more pensions, you get more and more of the benefit versus where you were historically. Thank you.

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

Thanks, Andy. I think they're all yours.

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

Yeah. It looks that way, doesn't it? The premise on the solvency capital requirement is correct, although of course, they're not all going to be equities. Some is going to be fixed interest securities. Some will be properties, that sort of thing.

On your final question, you're correct. This change doesn't affect unit trust because unit trust has explicit (42:19) those two questions.

On Bluedoor, I think you were asking me two questions, one is how is it going in the spend and when do the savings come. Okay. So, as I was saying in my presentation, it's going well. We've got one-third of our business being transacted on Bluedoor now. That was the case earlier in 2016, so that's the unit trust. The pensions business, new business is now going onto Bluedoor, and we will migrate that again this year. And then, later this year, early next year, we'll launch the new investment bond on Bluedoor and then migrate it. So just to sort of recap on that one. So, therefore, you can expect the cost of the Bluedoor program to continue into 2017 and also some further cost in 2018. If the project pushes back, then the cost will continue.

Yeah. So the savings only start to rise obviously once the migration has been done. So we're beginning to see the benefits coming through from the unit trust business. We haven't really seen any benefits yet from the pensions or the bonds clearly, but they will come through once the business has been migrated. We have no doubt at all and all our numbers show a significant saving over this 12-year contract term. Hopefully, I answered the question.

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

And just adding to the sort of benefits of Bluedoor. I hope it's self-evident, but this improved the efficiency and what we deliver to our partners and our clients in terms of processing times and in terms of accuracy. And what's really reassuring for me is Bluedoor came under a lot of focus 12 months, 18 months ago. Today, we're getting some very positive notes coming in from partners and some of the support teams that are saying just how well that system is operating.

The retirement account is up and running for all of our locations as all of our unit trust and ISA business. So all of the new business on those two-thirds of our business is going through Bluedoor right now, and people are starting to say some very positive and encouraging things about it which for me is pretty good. The numbers will come through in due course as Andy said.

Oliver? You have a very serious look on your face, so. That's better.

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

Oliver Steel, Deutsche Bank. So three questions. The first is – so the extra £25 million of not casual (44:53), whatever you want to call it, I mean if it isn't new cash, how does that change your dividend payout guidance? Second question is on the Academy cost. Perhaps you can just sort of extend your own projection out to 2018, 2019 as well as just 2017. And then, the third question is on – does the guidance you've got for your establishment expenses include the cost savings you're now expecting on the Bluedoor integration?

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

It sounds like it's coming my way again, and doesn't it really? On the £25 million, Oliver, it isn't new money. It's just the timing of the cash emergence. So it's positive for the cash result both operating and underlying cash result. And if they are growing quicker than they would otherwise have grown, then that should be positive for the dividend.

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

Does that mean that the 75% payout guidance is lower?

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

No. No. So the underlying cash should be £25 million higher than you would have modeled. And then we can use that £25 million to return to shareholders in line with our dividend guidance.

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

(46:16)

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

Yeah. The Academy cost, unlike Asia, the Academy is almost reaching a stage of maturity. Clearly, the number of graduates that go through the Academy will increase the cost. If you remember, we started in London with three cohorts. We then moved to Birmingham and Manchester and Edinburgh. And it's all to do with the number of cohorts going forward. So I think you can expect the cost to continue to grow if we continue to put more graduates through the program, but then you shouldn't see any sort of major step cost coming through. Did I answer your question?

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

Another add-on (46:55), why is that an investment expenditure of (47:00)

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

Yeah. I think if you look at the items that we're showing as business as usual and then the items showing as investment, I think if you look to each of the individual items, then today there could be a reasonably strong argument to say the Academy where it should be business as usual. Certainly Asia and RD (47:18) are still very much in investment. But when we started, it was clearly an investment.

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

Yeah, I think, I mean, just backing up Andy's point, the regionalization program has – we can't find premises, we can't (47:31) find people, we drop them in in the midlands and northwest in Scotland. That's all relatively new. So there's a little bit of start-up in that, but it will get to a point where it becomes pretty much business as usual as you would expect.

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

And the guidance – final question on the guidance on establishment cost excludes any savings from Bluedoor?

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

There's obviously a lot of interest in this cash shape difference event whether it's new cash or accelerated cash. I'm just quite intrigued just how you manage to save it until the end of 2017 and reporting in 2018. I just sort of find that a (48:11), but I'm joking. Next. So we got one back here and then one in the front here.

Q - Gordon Aitken {BIO 3846728 <GO>}

Gordon Aitken from RBC. We've got other big life insurance companies now acquiring advisers. Do you expect that to have any impact at all on your business, is it perhaps a little more difficult to acquire future partners? And second question, you role budget next week, what's your expectation for tax relief and if we do have a single rate of tax relief introduced, will higher rate taxpayers, addition rate taxpayers, do you expect them to (48:52)?

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

So, a single rate for pensions.

Q - Gordon Aitken {BIO 3846728 <GO>}

Yeah.

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

(48:54). So I'll let David and Ian kind of pick up what the competition.

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

Yeah. I think there's some quite a big difference between the acquisition of a business and a business joining SJP. We do acquire businesses, but within that process, it's very important that they also kind of join what we're doing and who we are and the values and there's a match. Otherwise, we don't acquire them. So we're not just kind of trying to buy businesses for the sake of the kind of consolidation play. They are all disparate with different cultures and different senses of direction.

So I think our position in the acquisition world is very different and that we talked to a lot of businesses, but there has to be match that they're going to be allied and go in the same direction of the business. We're not sensing any difficulties in talking to people. Selection is a bigger issue for us, and we're very confident of our ability to continue growing the number of advisers we need to grow. So we're not sensing any difficulties.

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

On the pensions tax relief, I mean it has been talked about before. I think there are two things to think about here. One is that, philosophically, it would be a decision that would benefit more rather than the higher rate taxpayers only. So you could see it happening. So flat rate tax, it will be a politically sensitive thing to do given philosophies out there, though it wouldn't affect our business, that's the second point because most of our business is about transfers and drawdown where pensions are already invested.

And the higher rate taxpayers had their limitations imposed on them in terms of what they can contribute any way. Most of our business sales is going to be existing funds or moved into drawdown from existing funds where tax relief has (50:44) granted in the past. So it's actually not a big SJP business impact. It's more of a sociopolitical impact across (50:49) message to the country.

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

I think what we've seen also with the pension tax relief changes thus far because, as David said, it's got quite complicated, 150,000 (51:00). One of the reasons why some of the businesses move because I don't think people will stop saving. This personal responsibility thing, putting money away, is why we've seen our unit trust and ISA business growing reasonably strongly.

And I think the other thing to bear in mind is that unless he changes it on March 8, the ISA limit goes from £15,000 to £20,000 at the start of this new tax year. That's quite a sizeable chunk and step-up for Mr. and Mrs. if you think about. There are not many people that will have £40,000 worth of after-tax investable income. So I suspect where they (51:42) on the pensions, whether it's life time or the taper or the relief that changes in the budget, then we should see quite a marked uptake in ISA business.

So there's another just down here.

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

Thanks. It's Lance Burbidge from Autonomous. Three quick questions. Firstly, Andy, you mentioned in terms of the UK business or the core business, it was a bit a like Asia many years ago. Can you remind us how many years that took to become cash positive? Secondly, another question, I'm afraid, for Andy which is on the life insurance, the Solvency II ratio post the dividend is up 120%. I wonder if we should be concerned in any way. And then, finally, on charges, David, you talked about the coverage in the press. Has there been any impact in terms of the business?

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

Let me deal with the last one first thing because it's the simplest one. No. Actually, quite a lot of supportive comments as to that's not what clients perceive or feel, so no impact at all.

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

Sorry. On the solvency capital ratio, it's not something that is of concern. If you remember, when I was presenting Solvency II last year, the ratio went down when markets went up, and that's some of the dynamic we're seeing there. If you look at the management free assets, then it's fine. On your first question, thank you for that. I guess I set myself up for it, didn't I? A slightly different beast because, obviously, the respective size of the markets. But it took a good 10 years to become cash generative for the UK business. And again, the faster you grow, the longer that can be.

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

It'll change next year, though.

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

Make it 11.

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

Barrie, on the front here. And then we'll (53:48). We've got one there, okay.

Q - Barrie Cornes {BIO 2389115 <GO>}

Hello. It's Barrie Cornes. I've got three questions. Sort of following on from that very last one, I suppose. First of all David, I just wondered about the timing of your announcement today. Just wondered what the background was if you could put a bit of color on that, that'd be great.

Second question, really, if there's likely been any management changes in the top team or the close to top team as a result of this? We are keen to hear your views on that. And last of all, one for Andy, whether or not we can expect any changes in direction, strategy, even down to the foundation as a result of you becoming CEO?

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

I can answer all three of them, actually. Not allowed. I know it gets a bit personal, Barrie, doesn't it? In terms of timing, it's - I'm 63 years old, so 64 in April, 65 next year. 25, 26 years here. 11 years as CEO. We've done our 25th anniversary. I've done my 10 years. I'm getting 65. It's sort of felt 18 months or so ago that it would be around that. So we spent with Sarah, the board, the exec team thinking about this movement. In my head, there was never going to be a sort of perfect time, but this feels like a good time. The business is in a good place. I meant what I said about responsible business. I feel incredibly chuffed that we are where we are. We have got a great team. We've been putting that in place very sensibly over the last 18 months, two years. It's why they're all here today.

And it blends really well from some people that have got masses of wisdom and 20, 30, 40 years in the industry, to some people that have sort of relatively newcomers, 5 and 10 years. We've got a great blend (55:37) our executive team. And so it sort of feels on both a personal level and on a business level that now is the right time. Nothing else to that. I'm not quite sure how you find the right time, but it feels about right now. And we're giving the market early notice, so this is not – these are not goodbye conversations because there's another 10 months, and I will not let go of that baton until I have to. So there is one CEO and that's it. Then Andy would take it on. Masses of confidence in this guy.

I said to one of the journalists this morning, if you were flying at the Red Arrows and you were at the front, you'd want this guy on your wing because he is that solid, and he's absolutely right to take the business on from here. He's got a couple of great people alongside him and then this broader team. So now is a really good time to be making this move. And I will play a little bit in Asia. And they've let me stay on, and that's really nice for me too. So, that's where we are. And he ain't changing the strategy. But you'll see it for yourselves, so.

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

I will answer that question myself. Look, I've been with the group for 24 years, it will be 25 by the time I take over. I've been involved in all the strategic decisions as CFO for the last 12 years. So I'm totally on side with the strategy and therefore I think you can read into that. No change. I will take the baton and go for the sprint finish.

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

One here, sorry.

Q - Benjamin Bathurst

Yeah. It's Ben Bathurst.

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

Sorry.

Q - Benjamin Bathurst

Is this on?

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

I think it is.

Q - Benjamin Bathurst

Yeah. Ben Bathurst from SocGen. I've got there questions please around products. Firstly on drawdown. I think, last year, you intimated that 67%, two-thirds of your funds that matured made their way into drawdown products. I wondered if you could give an update on what that number was like for 2016 and maybe perhaps give some indication as to what proportion of your SIF (57:30) funds are now actually in drawdown?

Secondly, on DB/DC transfers, there's been quite a bit of talk about that area in the press, especially in the last six months or so. I was just wondering, to what extent were the flows in 2016 helped by DB/DC transfers? And then, when St. James's Place partners do that business, I was just wondering what do you – how do you support them to make sure that there isn't a kind of a misselling case around DB/DC further down the line, but I know that's quite a controversial line of business?

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

Yeah. Yeah. David, do you want to take because you can probably deal with all of those, can't you?

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

I'll take the second – the last bit first and a very, very small amount of DB transfers. We've always been very cautious about the DB/DC transfer market. The dynamics in the marketplace are changing and we are looking again at whether we should adjust our approach there. But our approach has been based on independent (58:28) reports and analysis is based on probably licensing and training of partners and sign-off internally.

So the core principles don't change. The way in which we think about the market is open that we are looking at now because of the big shift in the yields and big shift in transfer values. And there is a more demand for people to be able to take their pension plan, have the security of that, and also use it as intergenerational planning tool as well going forward, so there's more flexibility. So, not a big impact at all in 2016, but certainly we're looking at it differently going forward.

In terms of the drawdown marketplace, the two-thirds figure is broadly consistent with where we've been for the last two years. It's edging up all the time. I'll partly rephrase what David is saying in terms of annuity still not giving value for most people, actually, because you can use your pension in different ways, so drawdown gives people the opportunity to control pensions conversation (59:19) beyond the first generation in a much more sensible way given the pensioners freedom was introduced last year or so. So, that's a number we'd expect to see going up.

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

Andy is going to come back. I'll make this the last question (59:34) everybody has got any other questions (59:36).

Q - Andy Hughes {BIO 15036395 <GO>}

Hi. Andy Hughes, Macquarie. A couple of questions. First one is on the £50 million whatever we talked about before on the SCR because, obviously, you answered the question about what happens to dividend from the new business cash flow. But I'm just wondering what the plans would be for any benefit from the SCR and whether if you move into an internal model with the SCR would be significantly lower than (59:55) because I believe there's a higher level of correlation between the two key stresses for you guys and the standard model, i.e. persistency in expenses.

And the final piece on the revised cash flow for new business. Presumably, what you're saying is we go above the surrender charge in terms of the cash flow. So does that mean you could reduce the surrender charge, it wouldn't make any difference to the actual cash flows you get from (01:00:19). And would that be something you're considering or not? Thanks.

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

I'll deal with the last one first. No, we're not going below the surrender value floor. So we're not shorting, which I think is probably the expression. We will set our unit liability at the encashment value of the client investment. It will not be below that encashment value. In the Solvency I world, you were holding above the encashment value of client investments for mortality, for regular income withdrawals, that sort of thing. So, what we're doing is we're moving that a bit. I think that answers that question.

Q - Andy Hughes {BIO 15036395 <GO>}

But you could go below that, couldn't you?

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

We don't think that's a very prudent thing to do and that usually always hold assets at least to meet your client liabilities. So we won't be going below the surrender value floor.

Q - Andy Hughes {BIO 15036395 <GO>}

Okay.

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

(01:01:10), do you want to deal with the other questions because we're trying to squeeze one more.

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

And on internal model, we see no real benefit of doing an internal model, apart from lots of work and lots of conversations, and anything arising from a change in the SCR, we will have to talk to the regulator about it.

Q - Andy Hughes {BIO 15036395 <GO>}

Okay. (01:01:34) basically.

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

No. Not at this point in time, no.

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

Are there any other questions before we go back out for coffee and we'll carry on the dialog there if anybody's got any individual questions? So, thank you very much for listening. Thank you for my colleagues and enjoy the rest of the day. Thank you.