S1 2010 Earnings Call

Company Participants

- Andrew Croft, Group FD
- David Bellamy, CEO
- David Lamb, Business Development Director
- Ian Gascoigne, Partnership Director
- Mike Wilson, Chairman
- Unidentified Speaker, Unknown

Other Participants

- Barrie Cornes, Analyst
- Blair Stewart, Analyst
- Colin Simpson, Analyst
- Daria Asadullaeva, Analyst
- Duncan Russell, Analyst
- Marcus Barnard, Analyst
- Neil Welch, Analyst
- Robin Buckley, Analyst
- Toby Langley, Analyst
- Unidentified Participant, Analyst

Presentation

Mike Wilson {BIO 1553617 <GO>}

Good morning everyone. Thank you very much for joining us today and it's great to see so many familiar faces. Very briefly, the program is as follows; David will talk about our strong new business performance last year; Andy will cover what I hope you'll agree are our equally strong financial results for 2010; and then David will say a few words about the outlook. This will be followed by our usual question and answer session and David and Andy will be joined by Ian Gascoigne, our Partnership Director, David Lamb, our Business Development Director and myself. So I'll now hand over to David.

David Bellamy {BIO 14025555 <GO>}

Thanks Mike, nice to see a smile on his face. Chelsea won last night; such a rare occurrence these days. Morning everyone, good to see you all again and it's a pleasure to be presenting to you against the background of a very strong performance across all areas of the business.

We've achieved substantial growth in new business, increased the size of the partnership, increased productivity, saw funds under management rise to an all-time high of GBP27 billion and, consequently, have delivered strong profits on all measures, including the cash result. That in turn has allowed us to recommend a substantial increase in the dividend in the first of a two-stage process to re-base it, so all in all a very strong all-round performance from the entire team.

Andy will go through the details of our financial results in a few moments, but before he does, and by way of a reminder, I'd just like to recap on the new business figures we released a few weeks ago and put them into some context. 2010's new business on the traditional APE basis was up 32% on the previous year. The slide shows the picture over the last five years and I think illustrates the scale of the recovery following the challenging 2008 and first half of 2009. APE has more than doubled now over the five year period.

A similar picture emerges, unsurprisingly, in respect of the new single investment growth. In 2010 we attracted GBP4.75 billion of new investment business, 37% up on 2009 and, again, more than double the figure five years ago. In fact, pretty much three times what we attracted in 2005 and well spread across all aspects of the business; that's bonds both onshore and offshore; pensions; ISAs; and unit trusts.

The consequence of those investment figures, coupled with the very consistent retention result we achieve year on year gives us a very impressive net inflow picture as seen on this slide; consistent positive inflows year on year and through some very challenging times. And I doubt that many of our competitors can claim such a consistent performance.

And the reason for that consistency three-fold; our unique culture; our unique distribution, the partnership; and our distinct investment management approach. I'll come back to those points a little later. But on the subject of the partnership, partner numbers were up 6% in the year, adding to, once again, a very consistent picture over the last five years. And couple that with the growth in productivity and you'll understand how the business grows.

Those two factors together continue to drive our business. And although I can't guarantee that we'll hit our 15% to 20% growth target every year, we remain confident of our ability to continue to achieve those objectives over the longer term, as we have in the past.

Here's a slide I first used in our July presentation, only now updated for the full year. It shows for each of the last four-, five-year periods a very consistent performance; averaged annualized growth, not just at the top of the range, but exceeding the target range in three of the four periods shown. And the consequence of that consistent performance is the growth in our funds under management. Here I've shown the 10-year picture again to illustrate the consistency of the Company's performance and the underlying growth.

At GBP27 billion we've now doubled the funds under management over the last five years, as we did in the five-year period ending 2005. And with our ability to attract over

GBP4 billion of new investments each year, with a modicum of growth in the stock markets, there's no reason to believe we can't double them again in the next five years.

I'll leave you with that thought and, for now, hand you over to Andy to go through the profit and, importantly, the cash results. Andy.

Andrew Croft {BIO 5711239 <GO>}

Morning, everyone. Before starting, I'd just like to echo David and Mike's comments about the strong performance during 2010, and it's a pleasure here to be presenting these.

Firstly, then, looking at the discounted cash flow result or, in other words, the EEV result, the combined profit from new business was GBP217.8m, some 40% higher than the GBP155.4 million for 2009. The new business margin on an APE basis was 37.4%, up from the 35.3%, and on a PV NBP basis improved from 4.3% to 4.4%. The increase in the expected profit, or unwind as it is often referred to, reflects the opening higher value of in-force, whilst the experience variance of GBP26.4 million principally reflects continued strong retention of funds under management.

Over the last five years we have reported cumulative positive experience variances of GBP68.7m, an average of GBP13.7 million per annum. This suggests that the assumptions underlying the calculation of the embedded value are prudent. There was a small operating assumption change, reducing profit by GBP3.4m. And the relatively low-assumed investment income of GBP4.2 million reflects the historic low interest rates and the prudent investment policy. Taking all these into account the profit from the Life and Unit Trust business, at GBP338.5m, was 36% higher than this time last year.

There was a profit of GBP5.8 billion from the Distribution activities compared with a loss of GBP7.5 million last year, whilst the other operations contributed a loss of GBP11.7 million against a loss of GBP13 million in 2009. Included in this other result is the cost of expensing share options, at GBP8.2m, compared with the GBP8.6 million for last year. And the balance in both years is made up of a number of small positive and negatives items. Therefore, the total operating profit, at GBP332.6m, was 45% higher than the 2009 figure.

It is worth noting at this point that the operating profit would have actually been GBP4.8 million higher had it not been for the -- our share of the recently-announced FSC levy -- FSCS levy in respect of the collapse of Keydata.

As you can see, there was a positive investment variance in both years, reflecting the higher investment returns. There was also a small profit from economic assumption changes in the current year, giving total pre-tax profit for the year of GBP455 million compared with GBP362 million (sic -- see presentation).

Within the tax charge there was a positive GBP17.7 million which reflects the reduction in the corporation tax rate from 28% to 27%. Although the government has also stated its intention to reduce corporation tax by a further 1% in each of the following three years, we decided not to reflect these future changes in the embedded value at this time. Had these proposed changes been reflected then the post-tax embedded value would have been GBP44.2 million higher. And finally, the post-tax result for the year, at GBP352.6m, was 33% higher than last year.

The EEV net asset value per share was 352.9p, up 24%. And had those future reductions in corporation tax rates been taken into account then the net asset value per share would have been some 9p higher, at 362p.

Moving now onto the IFRS result, the current slide shows the breakdown of the IFRS profit before shareholder tax. The total profit, at GBP84.2m, was 69% higher than 2009. The key positive driver to this improved result was greater income from funds under management, which themselves averaged some 30% higher than the prior year. Similar to the EEV result, the total profit was negatively impacted by the GBP4.8 million FSCS levy in respect of Keydata. The IFRS net asset value per share at the end of the year was 120.6p, up from the 112p at the end of last year.

Moving now onto cash, the current slide shows a now familiar breakdown and you will note that the total cash result for the year was GBP48.3m, more than double the 2009 result. The first line of this slide shows the return from the in-force business, which increased by 24%, to GBP109.7m, the main driver here being the higher fees from funds under management.

When considering how this cash from the in-force might develop it's worth remembering that, due to the un-wind of surrender penalty, we are not receiving income from that proportion of the business in its first six years where surrender penalties apply. This relates to GBP8.8 billion of funds under management not yet generating positive cash earnings, or one-third of the total funds. And this would equate to more than GBP60 million in annual post-tax earnings in the future. I should point out that this figure is for guidance as it ignores the impact from the stock market and outflows since the original client investment.

Returning to the previous slide, the cost of investment in new business for the year was GBP61.4m, slightly lower than the prior year. This investment will generate cash earnings in the future that should significantly exceed the cost of investment and, therefore, provide positive earnings for shareholders.

The current slide provides details on a number of different measures for valuing this investment. As you will see, the cost of investment as a percentage of new gross funds under management was 1.3%, or 2% if measured against net inflow. The cash payback period is five years and the internal rate of return net of tax is 19.6%. The return on investment on all these measures has improved over the prior year. This is due to the lower cost of investment and the higher value of new funds under management added. If we achieve our business plan going forward this is a trend that should continue. Hopefully, you agree these are good returns.

I would now like to spend a few moments on the outlook for the cash result in 2011 and future years, which looks positive for the following reasons. Firstly, the average funds under management are likely to be higher in 2011 than they were in 2010. The average of the opening and closing funds under management during 2010 was some GBP24b. We start 2011 with funds under management of GBP27 billion and even if we only matched the 2010 net inflows, and with no stock market growth, funds under management will average GBP28.5 billion in 2011; that's some 20% higher. In addition, as previously noted, approximately one-third of funds under management are not yet generating income but will do so in the coming years.

And thirdly, whilst the income from the in-force business is growing the amount reinvested to acquire new business will not expand at the same pace. And in fact, in the last two years the cost of investment has actually fallen. Therefore, given all these factors, under normal market conditions we expect the cash result to continue to grow strongly in 2010 and future years.

Therefore, in light of this we intend to re-base the dividend over the next two years, with a significant rise in the 2010 dividend and a stated intention for a future significant rise in the 2011 dividend. Thereafter, off this higher base we would hope to progressively grow the dividend in line with the underlying performance of the business.

Therefore, subject to shareholder approval the Board have resolved to increase the final dividend by 49%, to 3.975p per share. This will provide for a full-year dividend of 6p per share, an increase of 33%.

Before finishing, a quick comment on capital, which remains very strong and our investment policy continues to be prudent. As far as Solvency II is concerned we participated in the Fifth Quantitative Impact Study last year. And based on the current proposed rules the Group will not be adversely impacted by these new requirements and might actually see a reduction in the current capital that we are required to hold.

So in summary; EEV new business profit up 40%; EEV operating profit up 45%; IFRS profit before shareholder tax up 69%; cash result up 106% and the full-year dividend up 33%. 2010 has been an excellent year for the business, with significant increases in profit on all measures. In particular, the increase in the cash result should confirm that embedded value profit is converting to cash over time and that this will allow for further growth in the dividend.

Thank you for your attention. I'll now hand you back to Dave.

David Bellamy {BIO 14025555 <GO>}

Thank you, Andy. I hope you agree a great set of financial results across all aspects of the business. Before we leave the numbers I'd just like to reinforce some of the messages, by putting them into the context of earlier years in much the same way as I did with the new business figures.

So very briefly, here's the new business profit for the last five years; a strong recovery in 2010 with growth of 40%, a very satisfactory underlying growth picture. Similarly, with the total operating profit figure, strong growth in 2010 of 45% was a good underlying growth picture. And the same shape emerges for our net asset value; consistent underlying growth. And finally, before I leave the numbers, the cash result. Here we have the same underlying growth in the post-tax cash emerging from the in-force book.

In the years ahead, as Andy said, the benefit of the strong new business flows -- inflows should generate a proportionately greater growth curve than in other measures, hence, the confidence that sits behind our dividend increase and the overall message.

Let me move on now, and I'll start with the regulatory matters and, specifically, the Retail Distribution Review. Before that, though, a few words on the recent increase in the FSCS levy.

Whilst a little frustrating and a little unfair, as we don't operate in the IFA market, it is in all of our interests that confidence in financial services is not undermined by any failure, wherever it occurs. And if the occasional larger one-off levy price might just have to be a price we pay to maintain that confidence.

Turning to the Retail Distribution Review, let me update you with where we are in our preparations for the changes from the review. Just to remind you, there are three fundamental strands to the changes. The need for more professional qualifications is the first strand and is acknowledged by most as an important step forward for the entire advisor community.

The second is the advisor charging rules, often referred to as customer agreed remuneration, which up until now have been less than clear. And by that I mean that, whilst the rules are clear for IFAs, for the IFAs, the agent of the client, it's less clear in the vertically-integrated space for the likes of St. James's Place and other wealth management businesses. And the third strand is essentially all about what's referred to as status disclosure and, here, the proposed labels are independent and restricted. That's how in future we should describe the type of advice offered.

Let me explain where we are on each strand. First to the professional qualifications and, here, we've made some really excellent progress. Over 750 advisors, managers and support players are now diploma qualified and a further 700'ish are within one or two exams away from this diploma qualification, so an excellent result and real momentum in the partnership. There were 3,000 exams passed since we began the journey just a year ago and we are ahead of schedule. A massive effort by all concerned and an achievement we are very proud of, especially when coupled with the business results you've seen today.

On the advisor remuneration front we now have the clarity we were looking for, and that our proposed remuneration structure of 3% initial and 5% ongoing is fine, and, importantly, that our current product charging structures are RDR compliant. We will have to change our disclosure formats but, to be frank, we don't see that as too onerous given what we already do. Just so you know, here's what appears on every illustrational quote provided to clients today.

I won't read it out verbatim, but you can see in the second sentence of the first paragraph that we describe the value of the remuneration the advisor receives and then we predict how much that remuneration is going to be worth year on year, even taking into account market growth. We've been doing that since 1995. So pretty explicit disclosure of how much the advisor will receive and, whilst the words will change, the fundamental point of disclosing advisor remuneration is not new and shouldn't be that much of a step change for us.

Insofar as the industry is concerned we are very supportive of the drive for more transparency, providing it's in a form that consumers can understand. We worry, though, about the potential confusion created by the introduction of platform charges, performance fees, admin charges and transaction costs, and just how consumers can compare these potentially different currencies.

Putting that aside, transparency is good, although it may bring pressure on margins. If it does, I suspect that pressure will be felt harder by the fund management community than the online service providers, where access to funds and fund managers on a DIY basis will become more commoditized. The labels for advice are what they are; the suggestion that the advice is restricted is causing some tensions amongst some wealth managers and private client stock brokers.

For our part this really isn't an issue for St. James's Place and, if anything, partners are proud of their tied relationship. In any event, several industry commentators believe that most companies, including a large proportion of the current IFA community, will probably end up in the restricted space. Whatever the final outcome I don't think consumers will care that much. They will simply want to deal with someone they trust. That's what important to them today and it will be in future, regardless of the label applied to the advisor.

The law says there'll certainly be fewer advisors and so more competition for distribution as fund managers and product providers fight for access to the market. And as it currently stands the lower end of the mass market may be deprived access to advice and education currently afforded by the advisor community. Those that do have access, though, will probably get a better service.

And there is an increasing view that, in line with the point I made earlier about trust, the familiar and respected brands will attract market share. St. James's Place is a very familiar and respected brand.

Let me now turn to our investment management approach and recent developments there. As you know, our investment management approach is overseen by an Investment Committee made up of a couple of Plc executives, non-executive directors and independent investment professionals. They appoint new fund managers and monitor their performance and, if necessary, change the manager if we have a particular personnel or performance issue.

The Committee are advised by Stamford Associates, a specialist firm who provide a huge amount of research and analysis of our existing funds and fund managers and, importantly, similar analysis and research about potential new managers, and not just those in the UK, but across the entire globe. They give us access to some of the best talent available in the fund management industry today and some who aren't otherwise available to retail clients.

The most recent appointments have been the addition of two new managers at Schroeder's, as Nick Purves

moved to RWC. We've also appointed Adrian Frost and Adrian Gosden of Artemis to run a new UK and International Income for us, and replaced one of our existing managers with Dan O'Keefe and David Samra of Artisan Partners who are based in Milwaukee.

That brings the number of new managers appointed in the last two years to 15. And we now have a truly global investment proposition provided by some 30 fund managers from some of the best investment funds around. As well as giving our clients a huge choice, the breadth of the funds available now enables us to offer a selection of new model portfolios, which, in turn, should make life easier for our partners and clients alike.

Having stressed the importance of diversifying investments across asset classes and management styles, we've modeled the range of portfolios for both growth and income portfolios to cater for a range of client investment needs. And there are no extra charges for those portfolios; they're all part of the service.

To support the portfolios and our other client-facing material we've developed applications to take advantage of the rapidly growing use iPhones and iPads. Initially to support partners, these applications are the first of a number of developments in our back office. All aimed at the efficient use of modern technology whilst, at the same time, aiming to reduce the expense and delays associated with paper and other delivery mechanisms; an important set of initiatives that will make a significant difference to partners and clients alike.

I hope today has demonstrated the consistency of the Group's performance and the overall strength of the business. Our strategy is clear. We will continue to focus on the growth and development of the partnership whilst ensuring that we invest in the right products and backup that they need to provide a high-quality service and advice clients can rely on.

We've established that our product charging structure is RDR compliant, removing any uncertainty. We've strengthened our investment proposition with the introduction of new managers and the model portfolios and will ensure that this crucial aspect of our business remains at the forefront of our thinking. We still believe that embedded-value profits are the best measure of our performance year on year and that cash will follow and I hope today's results provide real evidence that that's beginning to happen as we expected.

We've established a strong reputation in the wealth management market and we remain committed to building long-term relationships with clients who can trust us to provide sound financial advice and manage their investments well. And the need for that advice today is as great as it's ever been. Our enviable reputation and track record has enabled us to attract good quality advisors into the partnership and we remain very confident that we'll be able to continue this growth over the next few years.

Given the market opportunity available to us, together with our ability to increase both the size and productivity of the partnership, we remain incredibly well placed and committed to our 15% to 20% per annum growth target over the longer term.

Thank you for your time today. I'd now like to ask my colleagues to join me at the front here and we'll be happy to take any questions that you have. Thank you.

Questions And Answers

A - David Bellamy {BIO 14025555 <GO>}

Who'd like to start? Okay, Colin.

Q - Colin Simpson {BIO 15894636 <GO>}

It's Colin Simpson from Goldman's. I've just got two questions, please. I see that Barclays has closed its Financial Planning division and I think Resolution today said that it wasn't going to sell any more investment products. Are you seeing anything different in your marketplace? And are you going to do anything different to try and capitalize on maybe a different -- a slightly less competitive environment?

I guess the second question for Mr. Gascoigne. What are you actually going to do with those who haven't passed the QCA4? I imagine there are some key people still not qualified.

A - David Bellamy {BIO 14025555 <GO>}

On the basis of sharing these things around absolutely [ph] Ian picks up both of those points, thanks, as their both in the Distribution space.

A - Ian Gascoigne {BIO 4439479 <GO>}

I'll start with the second one first, if that's okay. We've got a program of intense support for the whole partnership and our objective is to get as many people through no matter how much work it takes. If there are some who struggle for whatever reason and they can't operate as advisors, there may be possibilities post-RDR for them to become introducers or to retain some relationship with the organization. But they will not be allowed to provide advice. But our commitment at the moment is to do whatever it takes to help people on this journey.

In terms of the -- regarding Barclays, if I come on to that, and that's in terms of Distribution, 1,000 advisors have been released by Barclays onto the marketplace. The situation for us is more of selection than recruitment and they're not all appropriate for us. They're not all suited to the levels of advice and the types of business people we require. So we're in a nice situation with regards to that in terms of it's more about selection than recruitment. I'm not sure if that answers your question about changes, but that's certainly on the Barclays part.

A - David Bellamy {BIO 14025555 <GO>}

Okay. And one of the things I'd just like to add -- I think Ian's being quite modest as well. It really is a great result that we've got so many people through our professional qualifications so early. And one of the reasons for that comes from the benefit of scale effectively and the fact that we have such a strong organization with support teams, Ian's field management team.

We've been able to engage that entire team who, in turn, have engaged the partnership in getting through these exams, so a lot of credit should go to Ian and the field management team for actually making that happen and keeping the momentum. And bear in mind last year there were only three exam sittings that the CII held; one in April; one in July; and one in October. So to have got the results, to get those 3,000 exam passes given the three very limited windows was a significant achievement.

This year life's different, because we move into an online mechanism that the CII have facilitated so much more flexibility around when and where you can take your examination. So we should see that traction and that momentum continuing and the probably party-political tie.

James, over here. Good morning.

Q - Unidentified Participant

Morning, a couple of questions. First of all, can you describe the nature of the assurance you've had on RDR? Is it a bilateral letter from the FSA, is there an industry guidance note that's out, or is coming out? How comfortable are you that you're in the clear on that?

And second, on the qualifications it looks like 1,350 of your guys are nearly qualified or whatever. Are those full partners or are they registered individuals? What percent of the partnership is qualified both in absolute terms and weighted by sales?

A - David Bellamy {BIO 14025555 <GO>}

Yes. To deal with the first point first, I will take that. The conversation with the regulators has been very intense for some time to get clarity. And what I said in my statement was about vertically-integrated firms, because there are a lot of different types of people operating in that space and they have lots of different structures. So we were seeking clarity in that piece.

The nature of the clarification has been very explicit. Your current product structure is compliant. The words that we've exchanged with the regulators have been very specific and the statement itself, regarding my CEO statement, has been agreed in terms of the conversation with the regulators. Is there any bilateral? No. I suspect these things are firm-specific and are about the way in which the product is structured and the disclosure that we will partake of.

Insofar as the number of qualifiers, the 750 is made up of broadly 650 advisors and about 100 management and support staff, so some of our technical people that get in behind the partnership. The 700'ish that are within one or two exams is all partners, is all in that advisor space, so that's the proportions we're talking about.

Q - Toby Langley {BIO 15924432 <GO>}

Hi, it's Toby Langley from Barclays Capital. I've got two questions; one is on the hiring of new partners. Can you give us some sense as to the pipeline in terms of how many potential hires you're talking to at any one point in time, and also a reminder of what is the timescale in terms of the recruitment period per individual partner on average? That's the first question.

Then the second question is on implementation costs around the IT proposition that you're building here. Where is that in the numbers that we've seen, if at all, for 2010? And can you give us some sense as to what further spending you're likely to incur in terms of building that out?

A - David Bellamy {BIO 14025555 <GO>}

Okay. Well that's Ian again taking the recruitment point and we'll come back to the investment in the IT in a moment.

A - Ian Gascoigne {BIO 4439479 <GO>}

We keep very close MI on all the work in progress in relation to hires, so in terms of the numbers of meetings our business acquisition team are holding, the completion of papers, attending at various events, to course, to appointment. Work in progress is at the same level now as it was last year and the year before; it's fairly constant. The change over the last two or three years is more to do with the quality of the individuals rather than the volume of them. So the volumes are tracking previous volumes, but my take would be the quality of the work in progress is higher.

A - David Bellamy {BIO 14025555 <GO>}

On the investment front I'll pass it over to Andrew, just to pick up in the short term.

A - Andrew Croft {BIO 5711239 <GO>}

I'm pleased to say if you turn to page 22 of this massive document you would actually see the amounts. We've spent GBP5.7 million on both the investment and RDR last year. The RDR training probably came at a cost of about GBP2m, GBP2.5 million and the balance was on the investment proposition. And there will be a smaller amount this year, but there will certainly be some more spend this year both on RDR and the investment proposition.

A - David Bellamy {BIO 14025555 <GO>}

Just to add to that, the great thing about iPhones and iPad applications is they're relatively inexpensive to bring to market. There's so much activity going on out there. David's team put together, alongside the rollout of the new model portfolios, working with our IT people, the iPad application in an incredibly short space of time and got it to market quite quickly in terms of our market, St. James's Place Partnership. So they don't come with huge overheads just to make use of modern technology.

Q - Toby Langley {BIO 15924432 <GO>}

Just following up on that, how close are you to delivering a non-iPhone, non-iPad, i.e., a website-based real-time analysis tool that perhaps some of your peers are able to offer right now?

A - David Bellamy {BIO 14025555 <GO>}

I'll let David take that because that sounds a hard one.

A - David Lamb {BIO 15016583 <GO>}

No surprise there. As it happens we're developing our thinking around both financial planning tools and modeling tools that partners will use with clients and we're expecting to roll that out later this year. So bear in mind we're advice-led so we're not saying to clients here's something you can do yourself. It's very much about enhancing relationships between the partner and the client, but we're looking to develop these tools fairly rapidly now because, actually, as David says, this is very cost effective for us.

A - David Bellamy {BIO 14025555 <GO>}

Just getting back to the real-time point, sorry, just to -- I'm not an IT man, but the iPhone application which I have seen and used is aimed at partners. It gives the real time, i.e., as of last night valuations for their clients and their asset allocations. So we're really up to speed with exactly what it is that we've got available anywhere in the organization.

Now there's a problem; we've got two hands. Barrie first and then we'll pass it forward to Blair.

Q - Barrie Cornes {BIO 2389115 <GO>}

Thank you. It's Barrie Cornes at Panmure Gordon, a couple of questions, if I may. First of all, one for Andy. I just wondered if the FSCS charge is likely to be repeated next year, obviously not key data, but not a war chest needs to be built up, so whether or not we should model anything bigger than the normal GBP1 million to GBP2 million that you normally have in.

And secondly, I just wondered -- I think you're no longer allowing partners to run separate businesses any more from St. James's Place. I just wondered if that's had any impact on partner numbers or feeling within the partnership.

A - David Bellamy {BIO 14025555 <GO>}

Andy, go first with the --

A - Andrew Croft {BIO 5711239 <GO>}

Yes. First of all, we always suffer an FSCS charge, because we are in the Distribution category. Usually it is around about GBP1.5 million to GBP2 million a year and, to echo what David said earlier, we feel that's unfair, but that's part of operating in our arena.

This year we had an extraordinary charge of GBP4.8 million for key data, bringing the total charge for the year to GBP6.2m. We keep a very close eye on what's going on out there with various claims and we're not aware of any other significant claims falling into the respective buckets that we're in. It's quite a complex process, but we're not aware of anything. So we'd expect another GBP1 million or GBP2 million this year.

A - David Bellamy {BIO 14025555 <GO>}

Okay. Ian, do you want to take the --

A - Ian Gascoigne {BIO 4439479 <GO>}

Yes. In terms of other business interests and some partners, the conversations we've been having have led to the early retirements of a few partners and led to some making business choices where we didn't feel the two -- the relationship was compatible. So there has been some departures. In terms of a scale on that, it's probably about 15 over the last four months.

Q - Barrie Cornes {BIO 2389115 <GO>}

Thank you.

Q - Blair Stewart {BIO 4191309 <GO>}

Yes. Thanks very much, Blair Stewart from BofA Merrill. Two questions, David. You talked about industry margin pressure as a consequence of RDR. Could you maybe add a bit of color on that, how you expect that to manifest itself and, more importantly, whether it will spill over onto your business? I'd be interested in that.

And the second question is on the dividend. Clearly, a very significant increase this year, possibly another one next year, but still you're probably going to be paying about 50%, 60% of your cash result out. Why couldn't a business like St. James's pay out all of your cash?

A - David Lamb {BIO 15016583 <GO>}

Okay.

A - David Bellamy {BIO 14025555 <GO>}

Well let's deal with the dividend first and let Andy just talk about that because there's -- it's a -- yes.

A - Andrew Croft {BIO 5711239 <GO>}

Yes. I think in terms of the underlying cash result it's very dependent on what the stock markets are doing and whilst we're confident so long as the stock markets don't drop down to 3,000 again. So part of what we'll do, Blair, is to build up a reserve in order to able to smooth out the dividend in the event of a small market downturn or something. And in fact, the last two years -- sorry, 2008, 2009, we were paying out practically 100% of the cash.

A - David Bellamy {BIO 14025555 <GO>}

In terms of the margin pressure, and I'll let David add on to this in a second as well, the -- as I said in my words, I think the margin pressure takes two forms. One, I genuinely think that if you look at the market between advice and execution only effectively, I think in that DIY space where people will increasingly look for access to fund managers via Web, the price will become very, very important. And that seems to me where -- that's where most of the margin pressure is coming from as people compete in that space.

The emergence of platforms, the 'what supermarket.coms' or whatever they're called, looking for price comparisons, you want access Neil Woodford direct, then you go and you pay extra. So I think that for me is where there is going to be a pressure and I think most of the fund management community seem to believe that to be the case as well.

The second aspect may be -- and the answer's nobody really knows here. Maybe in our world at the top end, the spill, if you like, at the top end of the market, things might get a bit more acute insofar as people seeing more explicit disclosure and saying, actually, for the larger investments I want to talk about those tariffs, those fees, those rates. There is an argument, given the nature of the disclosure we've been making over the last 10, 15 years, that that happens to me anyway and there's nothing new going to happen that may change behavior in 2013. But frankly, as I've said just now, nobody really knows.

David, do you want to add to --

A - David Lamb {BIO 15016583 <GO>}

Yes, I think the only point I'd add to that is that this is also a conversation about Distribution. And if you're talking to a fund manager about how they get to market, then price is a very sensitive issue for them, post RDR. The same for an insurance company that's trying to sell a pensions plan that hasn't got Distribution. They're going via platforms, they're going to have to put their wares out there on a net price basis and price becomes a very relevant factor of what they do.

At vertically-integrated firms like St. James's Place our proposition is about the combination of what we do for them, looking after clients' money and the advice that we give, and Distribution is the one thing that actually we're very good at looking after and taking to market. So it is a different conversation for us in terms of price pressure generally than it is for the likes of a fund manager or an insurance company that hasn't got Distribution.

Q - Unidentified Participant

At the interim stage you included some comments about your relationship with your controlling shareholder. I haven't seen anything in today's statement. Can you just refresh us on the situation?

A - David Bellamy {BIO 14025555 <GO>}

I think this is one that I'll hand over to the Chairman.

A - Mike Wilson {BIO 1553617 <GO>}

Probably the only question he will hand over to the Chairman. The answer is we've got nothing further to report, James. Discussions haven't proceeded and nothing has changed and our focus is just on producing the best results possible going forward.

Q - Duncan Russell {BIO 15944951 <GO>}

Duncan Russell from JP Morgan. First question, could you talk about sales outlook for 2011, what hurdle rates you've put in place for the partnership, how those have changed versus 2010? And generally the risk appetite of your customer base; are they at a full-risk appetite now or is there further to go, do you think, there?

And secondly, on our dividend, the guidance for next year, should we be referencing this 33% increase in the full-year dividend or the 49% increase in the second-half dividend, please?

A - Andrew Croft {BIO 5711239 <GO>}

I'll take that one very quickly. I think it's by reference to the full-year dividend and what we're saying is that we're increasing the dividend significantly this year, i.e. 33%, with the intention of a significant increase next year. And I guess there's a bit of code in there that you could read would be something similar.

A - David Bellamy {BIO 14025555 <GO>}

I'll let David talk about the risk appetite and how clients are behaving and then, perhaps, Ian can pick up sales outlook in terms of 2011 and beyond. So David.

A - David Lamb {BIO 15016583 <GO>}

If you look at where clients invest their money it's roughly 75/25 in favor of equity-type growth strategies. That's pretty consistent over the year. In 2008 when the markets were wobbly there was a shift more weighted towards corporate bond-type portfolios. So last year was 75/25 broadly speaking growth-type strategy; that is very much the same continuing on at the moment. So that's the consistent picture.

Because we are client bankers, quite diverse, and so you have some people coming to look into invest their income because they're getting toward retirement age; other people who are much younger looking at growth. That 75/25 is a fairly consistent picture around this year and last year.

A - David Bellamy {BIO 14025555 <GO>}

Ian, can you pick up on sales outlook?

A - Ian Gascoigne {BIO 4439479 <GO>}

Yes. I like to think we deliver consistent sales growth over the mid to long term and I see no change in that. There's nothing at the moment. I don't know how confident I'm meant to sound at these things.

A - David Bellamy {BIO 14025555 <GO>}

You can sound very confident, Ian.

A - Ian Gascoigne {BIO 4439479 <GO>}

I'm very confident. No. We've maintained -- the targets are set and we maintain the same level of hurdle rate we have done each and every year.

A - Unidentified Speaker

We've increased the productivity bonus level.

A - Ian Gascoigne {BIO 4439479 <GO>}

Yes. Well in terms of internal dynamic we increase all the targets for the partners and, internally, the partner targets, associate partner, senior partner targets were all increased and we ensure partners are motivated to keep driving the business forward. But that's only one of the key drivers of the growth in sales. The other one is through recruitment and the impact of recruiters. And one thing that I'm very, very sure on is that the recruitment result of the last four to five years will have a profound impact on our sales growth for the next five years.

A - David Bellamy {BIO 14025555 <GO>}

The key point to remember, 6% growth in the partnership last year, 9% growth in partnership in 2009, you will see the benefits of that coming through in 2011. This year's recruitment will play into 2012 and beyond. So there is real momentum in the business. And on the productivity side, the other lever that drives the business on -- I know you may remember the graph that's in the pack. Strong growth last year but, actually, more of a recovery back onto that underlying growth trend, so a long way to go.

Sorry, at the back here. Have we got a mic? You've got one.

Q - Neil Welch {BIO 15172689 <GO>}

Yes, Neil Welch from Macquarie. Sorry, three quick questions, the first for Andy probably. Which is can you talk through why there's been decline in the margins for Unit Trust business and, indeed, what the trend might look like going forward?

Second is, has been talk about differentiation of product for clients maybe looking across the whole market here, particularly looking at high net worth clients in a different way. I wondered whether you were thinking about a differentiating your offer at all there.

And the other thing was that of the 88 people that you added to the partnership net, what does their qualification status look like and how does that figure in your work in progress and, indeed, how you think about new recruits over the next couple of years?

A - David Bellamy {BIO 14025555 <GO>}

Andy, do you want to take the margins first?

A - Andrew Croft {BIO 5711239 <GO>}

Yes. As we move towards the RDR one of the things that we are committed to doing is equalizing the commission across all of our products. And what that entails is increasing some of the commission on the Unit Trust and decreasing the commission on some of the Life products. And the two will compensate each other out. So you're there now with the Unit Trust, the right margin you would see all other things being equal, a further increase next year -- this year.

A - David Bellamy {BIO 14025555 <GO>}

David, do you want to talk about the clients?

A - David Lamb {BIO 15016583 <GO>}

Yes. Interesting, one of the things that we benefit from is a very strong relationship with clients. And at the top end we've been talking to clients about what more we can do for them and, in fact, what more they want us to do for them. So we would expect us this year to put in place some changes in terms of the investment options for our private clients and the high net worth client end and that will be expanding essentially the range and style of types of investment structures they can access via St. James's Place. We intend to keep them within our overall tax structures, but we'll expand the range of investment options because that's the sort of thing they're asking us to do. So we're looking at that right now and that's a piece of work we'll finish off this year and bring to the market later this year.

A - David Bellamy {BIO 14025555 <GO>}

Ian, do you want to talk about the personnel qualifications?

A - Ian Gascoigne {BIO 4439479 <GO>}

Yes. There's no real difference at the moment. What we do do in terms of the business acquisition team is to incentivize them to recruit diploma-qualified advisors as against people with a lot of work to do. So they do get a little extra bit of recognition for fully-qualified new joiners.

And it may well be that next year there may be a disincentive to recruit people who have an enormous amount of work to do, because we don't particularly want to be a kind of exam lifeboat for people who've left it very late and have not been committed so -- but there is some -- we do have some levers that we can use in that. But at the moment the vast majority who join us are either qualified or on the same part of the journey as the rest of the partnership.

A - David Bellamy {BIO 14025555 <GO>}

Robin.

Q - Robin Buckley {BIO 3596512 <GO>}

Yes, Robin Buckley from Deutsche. Just on the establishment expenses, I think I'm right in saying that those were held flat this -- well 2010 relative to previous year. Can you just talk about -- talk around how those were held back, particularly given the growth of the business, and what we can expect in 2011? And perhaps also just a comment on development costs that we can expect.

Then, just more generally, as we move towards RDR are there any conversations that you are having with some of your higher-producing partners that are basically not wanting to take the exams and are seeing that as an opportunity to exit the business? Thanks.

A - David Bellamy {BIO 14025555 <GO>}

Andy, do you want to take the --

A - Andrew Croft {BIO 5711239 <GO>}

Yes, I might just talk about this year's establishment expenses first. We've had three good years of controlling establishment expenses, if I use that expression, and we will continue to do so. We've had efficiency drives but we're probably about there now. What we're seeing in terms of expenses this year and what we say in the statement is that we are impacted by the VAT. We are impacted by Employers' National Insurance and for the first time in three years we will be increasing salaries for our employees. So we expect establishment expenses to be somewhere in the region of plus 5%. That's what we say in the statement.

A - Ian Gascoigne {BIO 4439479 <GO>}

In terms of the higher-performing partners, a greater percentage of them are already qualified than the rest of the partnership and are well on the journey, so it's actually the opposite of what you expect. They've got the most to lose, I suppose, and they've got on with it.

There are a small number of a certain age range and we've been surprised, actually, at the way that they're entering into the process and are keen themselves to get qualified. If you'd have asked me 18 months ago there may have been an anxiety from some of us that these would be people who we'd really struggle with in terms of personal motivation to start with.

But what's being demonstrated with the work we've done is actually that the motivation is quite high and they're coming towards us to get qualified. Whether all of them will get through, the old-and-bold high producer, is down to a lot of work, but I'm certainly not concerned about that as an issue now, whereas, 18 months ago it may have been we may viewed it as a bit of a risk.

A - David Bellamy {BIO 14025555 <GO>}

Yes, I'd echo that. Again, I think a lot of the work that the management team have done has helped that process come to reality. And I think if you look inside the St. James's Place community it is very much a community; partners are helping each other. And what was disabling people 15, 18 months ago, with the thought of the RDR exams, was the fear of failure and I think some of them have realized that, actually, they know quite a lot.

They might not be used to exams, but they're very well experienced in the business they're in. And some of their colleagues have encouraged them to start and take on the journey. They get an exam, they pass it, their chest goes out, their feathers fluff up and they get on with the next one. And that momentum, that traction has really taken on with some force in 2010. So I think I exactly agree with Ian. I think if you today feel nothing but pride and pleasure with what's happened 18 months ago, probably suffered the same fear of failure that they did, so we're in a good place.

Last question. Shall we just -- no, last three questions.

Q - Marcus Barnard {BIO 2103471 <GO>}

Yes, Marcus Bernard from Oriel. Just a quick one. Is there any change to the outlook for development costs, i.e. meeting RDR costs, training etc.?

A - David Bellamy {BIO 14025555 <GO>}

(Multiple speakers).

A - Andrew Croft {BIO 5711239 <GO>}

No.

A - David Bellamy {BIO 14025555 <GO>}

And one more. I'll just pass in front of you and then -- have we got one more question back there? Okay, so the last two questions. Yes.

Q - Daria Asadullaeva {BIO 16508025 <GO>}

It's Daria from Merrill. I just wanted to ask about -- regarding the -- given that you've got so many partners for whom exams are behind, what are your expectations on productivity growth we'll see and possibly partnership growth?

A - David Bellamy {BIO 14025555 <GO>}

Well I think this -- again, Ian covered it just now. That we commit, we don't do predictions and promotions of those -- any specific growth. 15% to 20% annualized growth over the medium term is probably all I can say on that. It's what we commit to and what we think we can deliver at this time. (inaudible).

Q - Daria Asadullaeva {BIO 16508025 <GO>}

Given that their exams are behind, they would start working harder or will they say done?

A - David Bellamy {BIO 14025555 <GO>}

No. I think they'll start working harder. But we're not going to commit to anything other than our normal corporate targets of 15% to 20% growth per annum, which is what we aspire to do.

A - Ian Gascoigne {BIO 4439479 <GO>}

We mustn't forget that 3,000 exams were sat in 2010. Sorry, 3,000 exam passes. So if we do the same again then we're well on track aren't we?

Q - Daria Asadullaeva {BIO 16508025 <GO>}

Thank you.

A - David Bellamy {BIO 14025555 <GO>}

Sorry.

Q - Unidentified Participant

It had to be asked, but are we any closer to understanding what Lloyd's wants to do with its stake on a one-, two; or five-year view -- and five-year view.

A - David Bellamy {BIO 14025555 <GO>}

That's a great way to end, to give the Chairman the last word I think.

A - Mike Wilson {BIO 1553617 <GO>}

It is a word. No.

A - David Bellamy {BIO 14025555 <GO>}

Listen, thank you for your time today, a good set of questions. We'll hang around for coffee if anybody's got any further questions and thank you to my colleagues. Thank you, have a good day.