S1 2014 Earnings Call

Company Participants

- Andrew Croft, Chief Financial Officer
- David Bellamy, Chief Executive Officer
- David Lamb, Managing Director
- Ian Gascoigne, Managing Director

Other Participants

- Alan Devlin, Analyst
- Andrew Sinclair, Analyst
- Ashik Musaddi, Analyst
- Barrie Cornes, Analyst
- David Mccann, Analyst
- Jon Hocking, Analyst
- Oliver Steel, Analyst
- Paul De'ath, Analyst
- Ravi Tanna, Analyst

Presentation

David Bellamy {BIO 14025555 <GO>}

Good morning, everyone, and thank you all for coming to this rather unique venue, the venue of the City of London, poiscaille [ph] for about 100 years, up until 1967 of the events; and a good setting, great setting for today.

I'm very conscious, one of the nice things amid these old buildings is they are authentic -- authenticity. One of the bad things about them is they have no air conditioning. So those you who haven't taken your jacks off, feel free. It's a relaxed way to run these meetings. Ladies, you are on your own, okay.

So, welcome to everybody. You've heard me say before that there's a reassuring consistency and predictability about our business. And I think the strength of our results today reinforce that message.

I'll run through the first part of the results, focusing on the performance of the business for the first six months of this year. Andy will then give you his usual in-depth review of our financial performance; covering profits, cash flows and dividends. And finally, I'll spend a bit of time on the moving parts and why we think we're well positioned for the future.

So, let me start with the business performance. I'm going to show you a series of charts now, which highlight our performance thus far this year, but also puts the results in context with our performance over the last few years. So first, our new single investments. That's essentially all the new money that's been invested in our investment bond, unit trust, and pension wrappers, that's up 21% year to date and just shy of GBP4 billion, that equates to the St. James's Place partnership, attracting new investments from clients at the rate of GBP150 million each and every week.

And if our second half performance is in line with the first, which we expect it to be, we maintained our 20% compound growth in this measure over the last 10 years. Not surprisingly, given our consistent retention records, our net inflows had a similar story, in particular net inflows up 23% in the first six months of 2014, that in turn contributes to the growth in our funds under management of 3.3 billion, up 7.4% to 47.6% -- 47.6 billion.

Turning now to growth in partner numbers. Recruitment, as we said towards the end of last year, is now back to what we would regard as normal levels. And having achieved 2.5% growth in partner numbers in the first six months, we're on track to achieve 5% to 6% growth for the full year. Having been beneficiaries of two years of disruption in the adviser marketplace with banks withdrawing from face-to-face provision to the mass affluent; and the IFA sector contracting, we can expect partner recruitment levels to be more normal going forward.

Having said that though, we are increasingly attracting businesses that consist of more than one qualified adviser. And whilst we only count each business as one partner, the reality is that in terms of adviser capacity, our qualified advisr community is growing more quickly. And that's been the case in the last few years.

This chart shows that growth, and in particular, you will see that the growth in the first six months in qualified adviser numbers is 4.6%, up to 2,688. Given the changing shape and structure of the businesses we're recruiting today, as I indicated in our meeting last year, we plan to include adviser numbers as a matter of course in our figures going forward.

As most of you will know, our growth model is based on two key levers; capacity i.e. the number of qualified advisers, and productivity. So turning now to productivity, these next two charts show the growth in that measure.

Firstly, productivity per partner, which as you'll see, shows productivity up 13% in the first half of the year. The next, productivity per advisr, where the growth in the first six months is 9% compared to the first six months of 2013.

Clearly, productivity per adviser was a lower absolute number, but the key point is the trend, both showing a similar shape and growth in line with our objectives. So, that brings me to the end of part one. Strong growth once again in new business, new single investments and net inflows, coupled with strong growth in the number of qualified advisers and their productivity, that I've said on previous occasions, bodes really well for the future.

So let me pause there, hand over to Andy to talk you through the financials and I'll come back a little latter. Thank you. Andy?

Andrew Croft {BIO 5711239 <GO>}

Good morning, everyone. I'm pleased to report a strong financial performance in the underlying cash and EV result. There are a number of vagaries around the IFRS, which I will cover later, but these do not reflect the operating performance of the business. Now, as you are aware that 2013 reported numbers included number of significant changes and one-off items. Whilst I'm pleased to say that the 2014 numbers are not so messy, I will need to refer back to the 2013 items that help explain the underlying performance of the business.

There are also a few points of clarity to help you with your models. There is, however, one change in an accounting requirements that has impacted the 2014 half-year result. In line with the rest of the industry, we have adopted IFRS IC Interpretation 21 - Levies. Now, for those of you who don't know what that means, it means that we are required as far as the Financial Services Compensation Scheme Levy is concern, recognize this amount in full immediately rather than being phased evenly over the year.

Consequently, the 2014 half-year result reflects the expected full-year levy of 6.9 million, whereas the 2013 result reflected just a six months charge of 2.4 million. Clearly, this is a timing point and there should be no further cost in the second half of the year, unless there is an additional FSCS levy. And this change is reflected in all the profit measures, which you will note as we go through the numbers.

So, let's start looking at results, with the embedded value numbers. And the current slide shows the usual breakdown. The new business contribution for the six months that are 181.3 million was up 19%, in line with the new business growth David covered earlier. The expected or unwind for the period was 91.6 million compared with 56.5 million, the increase reflecting the higher opening value of in-force and discount rate.

I'm pleased to say that, once again, there was a positive experience variance during the period, which as I've previously said, could provide investors with confidence on our reported embedded value. In both years, there was a positive variance from the continued strong retention, particularly in respect of pensions business. And you will recall that the 2013 figure also reflected a GBP32 million value based on capital losses. Investment income for the period was 3.4 million, compared with 1.7 million last year, whilst distribution contributed a loss of 8.8 million for the six months.

And included within this distribution result is the additional FSCS levy, I touched on at the start, with the balance of the difference between the two periods, reflecting higher expenditure in 2014. Other contributed a loss of 15.8 million, which is at the same level as last year. And included in this figure is the cost of expensing share options, the investment in the back-office infrastructure and last year the cost of the share pricing, with the balance being made up of number of miscellaneous items.

I'm taking all this into account, the operating profit for the six months was 260.7 million, up 12%. The current slide provides an alternative presentation that better illustrates a like-for-like operating performance. Eliminating the one-off and non-operating items, it's a like-for-like growth in the EV operating profit of 30%. In the current year, there was a small positive contribution of 9.9 million from the combined investments variance in economic assumption change, compared with a far bigger 211 million impact in the prior year, given the stronger investment markets during that period. The net asset value per share at the 30th of June was 604.9 p, up 15% over the 12 months.

Turning now to the post-tax cash result, with the current slide, showing the breakdown of the total position. Before looking at the underlying result, let's quickly deal with the other items. Firstly, there is no repeat of the one-off 18.3 million from a reinsurance in the first half of 2013. Secondly, the back office investment was 3.7 million post-tax in the first six months and there will be a similar cost in the second half of year and in each half of 2015.

It's worth noting that we are very pleased with the progress of this development and are currently in extensive use of testing. The prior year number included the post-tax expense in respect to the share pricing.

And thirdly, there was a negative 14.7 million, compared with a positive 2 million in the first half of last year. These amounts mainly reflect timing variances in the settlement of tax related liabilities between the unit linked funds, the shareholder and HMRC. And hence, that's why we don't include them in the underlying result. The current year negative mainly reflects the reversal of the 2013 full-year positive variance.

Returning now to the underlying cash result, which as you can see, was up 17% to 78.5 million. This is worth noting, like the EV result, the current year includes the change in accounting for the FSCS levy I touched on at the start. At this levy being calculated on a consistent basis to 2013, then the cash result would have been some 82 million and the growth would have been 23%.

Now, as you are aware, we see the cash result as a combination of the cash emerging from the business in force at start of the year, less the cash flows associated with the new business activity during the period.

And looking at the breakdown between the two reporting periods, you see that the cash arising from the in-force has increased by 25%, due to higher net income from funds under management.

We've always spoken up broadly earning 1% pre-tax of funds under management. However, given the slightly different earnings profile across various lines of business, together with different tax regimes applying, we have also provided a blended post tax rate 0.77%. It would be more accurate for you to use this 0.77% figure in your models.

The investment in new business was 36.4 million in the current year, higher than the 25 million for the corresponding six months 2013. This increase is partly explained by the FSCS levy point and partly explained by higher expenses. Looking forward, funds under management have been maturing; and as they continue to develop, due to net income, could also increase correspondingly. At the 30th of June, from 14.2 billion of original client investments are currently within their first six years and not contributing to the cash result. If all this business reached the end of the early withdrawal charge period, then the annual post-tax cash result would be some 109 million higher.

Moving now on to the IFRS result. And I know from conversations with many of you, this is where the modeling gets difficult. We are, therefore, provided a few enhancements to the post-tax analysis to assist you, which I will cover later.

The headline IFRS profit for shareholder tax for the period was 82.4 million, lower than the 90.1 million for the same period last year. However, to better understand the underlying performance during the period, it is worthwhile stripping out a number of factors. Though, removing the reinsurance treaty, the FSCS levy and the back office investment together with the 2013 one-off share placing cost, the underlying comparison would be 94 million in the current year compared with 89.6 million, growth of some 5%.

Even so, this still leaves the question of why the IFRS performance is so different to the growth in new business, the growth in funds under management, the growth in the underlying cash result and the growth in the EV result.

As I said at the start, this is also due with the vagaries of IFRS rather than the operating performance. And to understand this better, let's look at the breakdown of the adjustments required the post-tax cash result. And to help you with your models, I will also comment on how you can expect each constituent part to develop going forwards.

Now, this can be a touch complex, but please try and stay awake. Now, starting with the underlying cash result; the first series of adjustments required relates to the purchase value of in-force, the PV; the deferred income recognition, the DER; and the deferred acquisition cost, the DAC. And looking at these, I'm starting with the amortization of the PV asset which reduces profit by 1.2 million to 1.3 million in each half year. This is a trend that will continue in each reporting period.

The second adjustment to consider is the movement in the DER. Now essentially, this adjustment requires any initial margin, we deferred an outset and spread. Consequently, the result is reduced by differing the initial margin for the current year, but increased by the amortization of prior year initial margins that had previously been deferred.

Looking at the two reporting periods, you will note that the deferral on new business is more or less the same in each year. And you should not expect significant movements in this number going forward. The amortization of the existing DER, however, is some 5 million low in the current half year and this is a trend that will continue as the DER held on the balance sheet reduces.

The next adjustment to consider is the DAC, which is essentially the opposite side of the DER, in at any cause are required to be deferred and spread. Again, looking at the two reporting periods, you will note that the deferral on new business is more or less the same in each period. And again, you should not expect significant movements in this number going forward. The amortization of the existing DAC, however, is some 3 million low in the current year. And this is also a trend that will continue as the DAC on the balance sheet reduces.

Now, as SJP is a growing business, historically, the DER and DAC established in respect to the new business in the particular year had exceeded the amortization of the prior year's DER and DAC. In other words, they had historically been a benefit due to the IFRS result from these adjustments. However, following the introduction of the adviser charging rules at the start of 2013, the initial margin on the partner remuneration are no longer a cash flow of the company. Therefore, the company's initial margin and acquisition costs are significantly lower.

Consequently, the associated DER and DAC on new business is also significantly lower and are now more than offset by the amortization charge from the prior year's DAC and DER. In other words, there is now a drag on the IFRS result. And this is as the historic DER and DAC held on the balance sheet unwinds.

Next, a proportion of business actually issued at the start (Technical Difficulty) therefore, the initial margin and costs were still income and expense of the company. And therefore, still deferred by an additional DER and DAC adjustment, which increased 2013 result by 2.1 million. And the combination of all these adjustments resulted in an increase in the 2013 result by 7.2 million, but only 3 million in the 2014 result, a difference of 4.2 million or some 5 million pre-tax. The 2013 result also included a one-off profit, sorry, one-off post-tax benefit of 7.1 million from the reassurance treaty. There are also a number of adjustments required for share options and other miscellaneous items. These two you should model in line with current year experience.

The next slide relates is deferred tax assets of 38.4 million established in the 2013 IFRS result. But a future expected benefit of capital losses. And there has been a further small addition of 0.8 million in the current year. Now, as these capital losses are actually utilized and the benefit flows through the cash result, then the deferred tax asset has to be amortized by an equal and opposite amount. And the amortization charge in the 2014 result was 4.2 million.

Going forward, we anticipate utilizing these capital losses over the next 6 years to 7 years, but you should assume an amortization charge of some 5 million to 6 million per annum going forward. And finally, the UK life tax regime gives tax relief with the costs associated with the acquisition of new business evenly over a period of 7 years. Therefore, in any year, it is necessary to make two deferred tax adjustments in the IFRS result. Firstly, a deferred tax asset established for the acquisition costs in a particular year that will receive tax relief in future years i.e. six-sevenths of that year's cost. Now, the deferred tax asset established in both years was 6.1 million. And I suggest that you model a similar amount going forward for each six months period.

Secondly, the existing deferred tax asset established in previous years needs to be amortized as the tax relief is obtained i.e. one-seventh of each of the previous six years' acquisition costs. And the amortization charge in both costs of the year was about 10.2 million. Similar to the DER and DAC, as a growing company, historically, the deferred tax assets established in respect of new business costs each year had exceeded the amortization of prior year's deferred tax assets. In other words, there had been a benefit to the IFRS result.

However, again, following the introduction of the adviser charging rules, the partner remuneration is no longer a cost of the company. And therefore, the level of acquisition costs and consequently the benefit from associated deferred tax asset is smaller, and now more than offset by the amortization from the prior year's deferred tax amount. In other words, there is now also a drag on the IFRS result, as the historic deferred tax asset unwinds.

This will be the case albeit by a declining amount into the existing deferred tax assets in respect of adviser charges is fully amortized. We've guided to a full-year 2014 amortization charge of 20 million. And going forward this amortization charge could decline by some 3 million to 4 million in each of the next five years.

And taking into account all these adjustments, the post-tax cash result for the six months was 66.1 million compared with 108.2 million. Grossing up for tax, we get back to the IFRS pre-tax profit.

Now, I appreciate there were lot of moving parts here, but hopefully you will find this new analysis helpful for you models. I'm also very happy to go through these adjustments on a one-to-one basis. And if you would like a copy of this script, then let Tony or I know. And to finish the IFRS, the net asset value per share at the end of June was a 178.8 p, some 8% higher than last year.

So, back to more exciting things and moving on to the dividend. The current slide shows a dividend growth over this period, which represents compound growth per annum of 23.5%. In setting the dividend, the Board considers the operating performance of the business, the outlook together with the payout ratio. And the key financial performance measure that Board considers is the underlying cash result, not the IFRS result. And given the growth in this measure, the Board has resolved to increase the interim dividend by 40% at the top end of our guidance. And we anticipate an increase into the full-year dividend of a similar amount.

Now, a brief look at the historical development of the dividend. In 2006 and '07, we grew the dividend within a range of 15% to 20%, giving a payout ratio in the high 70s. During 2008 and '09, the underlying cash was held back by the markets. However, we still increased the dividend albeit at 2% to 3%, whilst the payout ratio climbed to around 90%.

As the market started to recover and our business became more mature, we were able to significantly increase the dividend with three successive increases of 33% in 2010, '11 and '12, with a payout ratio in the 60% to 70% range. And last year, we increased the dividend by 50%, providing a payout ratio of 59%.

As noted earlier, we have increased the interim dividend by 40% and anticipate the full-year dividend increase by a similar amount. This will provide a payout ratio somewhere around the 65% rate depending upon the full-year cash result. And that is not a forecast.

As you know, we are currently establishing a cash reserve on the balance sheet equal to one year's dividend cost and fully expect to return to a payout ratio at the 70% level once this reserve has been reached.

And a few points on the capital position of the group. The solvency position of the regulated entities remained strong and resilient. The group balance sheet is not exposed to options, guarantees or longevity risk. And we continue to have a low appetite for market, credits and liquidity risk. It's probably also worth a comment or two on Solvency II.

As you know, new regime will be implemented at the start of 2016. Whilst we do not yet have all the final rules and guidance. Given the unit linked nature of our business, with no options, guarantees or longevity risk, the group will not be adversely impacted by the new requirements. And indeed, we expect to see a reduction in the capital currently required for solvency purposes. Consequently, we do not see Solvency II impacting our current dividend policy.

And to conclude, a strong financial performance for the year with the underlying cash result up 17%. The interim dividend increased by 40% at the top end of our guidance and we anticipate an increase in the full-year dividend by a similar amount. This will be the fifth successive year of significant dividend growth. And finally, the capital position remains strong and we have no concerns in respect to Solvency II.

Now, it's me done. Thank you for your attention. And I'll now hand you back to David.

David Bellamy {BIO 14025555 <GO>}

Thank you for the jacket being removed. And that was a real teaching on IFRS, now you know why he choose a school for the presentation. So thank you, Andy.

And let me move on to part two. As for the overall business results I covered earlier, I hope you create a set of financial results that provide further evidence of a strong, growing and sustainable business, delivering value to all of its stakeholders. At our meeting in February when we released our 2013 results, I've spent quite a bit of time talking about our clients. I covered the demographics of our client base, their age profile, their holdings and the latest round of feedback from them. I won't repeat that today, it's safe to say that we attracted a further 27,300 new clients in the first six months of this year. Growth consistent with the other numbers that we've spoken about today. They will have come to us as existing clients of advisers who joined us, new clients of existing partners and from referrals. And that brings the total number of new clients to over 200,000 in the last five and half years.

Despite that growth, there were still a relatively small part of the wealth management sector; Data Monitor estimates that there are over 9 million people who have over

GBP50,000 on investable assets, liquid assets, who between them have over 2 trillion of investable wealth. And I'm reckoning we are looking after a tiny percentage of that wealth, but a terribly scientific piece of analysis I know, but you get my point. The two extreme ends of the market and by that I mean the ultra high net worth individuals or self-directed investors are not typically our market. The former who currently tend to deal with the global investment banking organizations and the latter tend to invest smaller sums and pick a fund directly.

Our core market is seen as the mass affluent for high net worth clients, that's those who have liquid assets of between 50,000 and 5 million. And according to Data Monitor who have between them around 1.7 trillion of investable wealth. And from our experience, the majority of this market wants someone they can talk to, someone they can trust to take care of some or all of their wealth and importantly someone that will keep them on track.

Most UK banks have withdrawn from providing this market with a face-to-face service. And in the wider IFA sector, we see continued contraction. Some believe that this largely driven by the regulatory burden has created a clear advice gap, the people are being denied advice as it can't be provided in a viable way.

It is an undeniable factor that there are fewer advisers in the marketplace today than they are ever been and it's also an undeniable fact that more people than ever need or seek help with their finances. However, was this may be interpreted as leading to an advice gap. I don't think clients see it that way. In our experience, most people want is simply to do business with someone they can trust. And to trust someone, you have to get to know them. And that means forming some sort of long-term relationship and that's where the gap this.

The financial services industry is potentially feigning its clients by failing to provide something the majority of them want, a relationship-based personal service. These quotes come from a report published just last week from the Competition of Markets Authority from their recent review into banking services for the SME market. Whether it's in banking, insurance or wealth management, we believe that most clients whether individuals or small businesses, crave such a service. They want to deal with the same person, they want to be treated as an individual properly and fairly, and they want advice they can trust. The fact that the industry and regulation is failing to respond to this basic need is the reason you people will say for retirement, you people will maximize the incentives the government give them to invest and fewer people will protect themselves, their families or their wealth.

In other words, fewer people will fail [ph] and will act. And some industry commentators all that's required to deal with this challenge is the provision of low cost online services, that people can access for themselves, or centralized call center. And for some, that's perceived to be innovation. For St. James's Place, innovation is about making our products and services more relevant and more bespoke, adding new asset classes and manages to already broad range of investment propositions. Developing technology to make it easier for our partners to serve their clients well, is where we see innovation best applied in our business.

We're committed to the face-to-face market to building long-term relationships with partners and clients and like. And that's why we invest substantial sums of our resources, making that better bit by bit every year. Our clients like what we do for them, they evaluate it and they recommend us to their friends and acquaintances, hence their feedback and their consistent growth in our business. Whilst our overall share of the market is still relatively small, as I said earlier, there is one area where it's not small and that's in the ISA market, a more better illustration of our ability to get clients to act and in the right way.

Here is the latest table of top 10 providers, provides the fund sourced by the IMA. This is an update from their website just a couple of months ago. St. James's Place stands in the number one position today with GBP1 billion more in ISA funds from the nearest competitor.

Our strength in that market is why we were particularly pleased to hear the Chancellor increase the ISA limits from 11,700 to 15,000 per annum per person. That's a 28% increase, with effect from this month, and the maximum amount people can put into the ISA's each year. Not everyone can afford to maximum fund that arises, but a significant percentage of our clients do, and this is an encouraging step for us for the future.

That was also the case with the recent announcement on pension reforms, giving clients more choice and more flexibility has to be in their best interest, albeit such freedom is not without risk. Another reason why we believe our relationship-based model is so well placed for the future, providing ongoing advice before, at, and post-retirement.

Turning now to our core investment proposition for clients. The first six months of this year has been particularly busy period for the Investment Committee and our asset management teams. Last time we met, I explained that we were close to confirming how we were responding to Neil Woodford has moved. In the event, we decided to leave the majority of the funds he had previously managed for our clients with him. So we simply replaced INVESCO with Woodford Investment Management. And that was in respect of our UK high income, UK equity and income distribution funds.

The key point here though is that it was a seamless transfer for our clients. They don't have to do anything, and their sales or repurchases, and their tax implications and no paper work, a really seamless transfer. At the same time we took the opportunity to bring back some further changes to our range of fund and fund managers with the appointment of three new managers. Richard, Steven and Jim at Threadneedle Investments will now manage our Strategic Managed Fund, our Global Equity Income Fund will be managed by Paul Boyne and Doug McGraw at Manulife Asset Management and they're based in Boston.

And we've established a new emerging markets fund to be managed by Wasatch advisers based in Salt Lake City, Utah, led by A.J. Chrisman. Whilst such advisers join the other 12 fund managers, St. James's Place clients have exclusive access to in the UK retail market, for further strengthening the proposition for clients. We've also strengthen our investments committee by introducing two new independent advisers, Steven Daniels and Davina Curling have between them over 50 years of investment management experience and that experience will be invaluable to our investment Committee as they oversee our growth aspirations in the future.

And finally, to the partnership. I said earlier that despite our commitment to the face-to-face relationship-based market, there are fewer advisers in that market today than there have even been. That fact coupled with our desire to continue to grow the partnership is the motivation behind our academy. Since it was re-launched in 2012, it's gone from strength-to- strength. And we're now are seeing students from that 2012 cuve [ph] beginning to graduate as further -- as fully qualified advisers and that trend will continue from here on in.

In terms of new intakes, our makeover [ph] attracted 22 new students, but in some track to achieve our target for 2014. And the third of this intake like the previous intake were women, an encouraging sign in itself.

In addition to the London Academy, we are just about to begin our Regional Academy Program. The first being in Manchester in September of this year where we will see close to 20 students to join us. And that will be followed in the spring with the focus in the Midlands where we expect to set up an academy in the early part of 2015. And just by a way reminder, the average age of our academy students is 38 and prior to joining the academy this year's intakes previous 12 months earning was on average GBP90,000 per annum, as well as bringing new blood into the industry, we're committed to supporting the partnership every way we can and more so in their further professional development. Continual professional development is an essential and non-negotiable ingredient of our world and we want to do all we can to help, support and encourage our advisers and technical support teams in this area. That's why we were delighted to announce yesterday that we are launching a Masters degree in wealth management in conjunction with the London School of Business and Economics. This qualification and Masters in wealth management will be available exclusively for SJP employees and advisers, first in the UK I believe.

We're also delighted with the progress we are making following our acquisition of the Henley Group. As you may remember. the group consists of some 50 advisers who we haven't yet included in our numbers and who operate out of three locations in Singapore, Hong Kong and Shanghai. We completed the transaction in June and have made good progress with the transition in all three locations. Two of our senior management teams have relocated to the Far East and many more are working on the integration such that everything is on schedule for the marketing of our range of investments and services later this year.

We also seem to have generated lot of interest in the adviser market in the Far East, so there is already some encouraging signs for further recruitment in those jurisdictions. I know there's a lot of interest in this room too, but it's a little bit premature to go into the detail at this stage. So we will cover in much more detail at our next presentation.

For now, let me leave you with a summary of today's results. The business is in great shape and I hope you agree, continues to deliver great outcomes for all of these stake holders.

We're determined to maintain that strong momentum and the momentum on the business generally. I'm remain committed to continual improvement in all aspects bit by bit, inch by inch, year by year.

Thank you for listening. I'd now like to try ask Andy, Ian Gascoigne and then David Lamb to join me upon the platform, where we'll be happy to take any questions.

Questions And Answers

A - David Bellamy {BIO 14025555 <GO>}

I think you will know these guys. But if there are any new faces, David is at the end and Ian is the good looking one in the middle. He wants to be first. Okay. We look forward. We have two mikes going here. So -- for some reason, we've lost the lights.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Ashik Musaddi from JP Morgan. Just couple of questions. First of all, can you give us some color on what sort of size of partnership are you trying to acquire, I mean, in terms of number of advisers because there is clearly a disconnect between the growth in the partnership and growth in advisers. So how should we think about growth in the adviser base going forward? And is it a good measure to look at productivity?

And secondly, will dividend have any relationship to the IFRS net profit or will it's only be based on the cash profits? Thank you.

A - David Bellamy {BIO 14025555 <GO>}

Okay, Andy, if you want to take IFRS and then Ian can pick up the advisers.

A - Andrew Croft {BIO 5711239 <GO>}

Yeah. If I do the dividend first. As I say, the Board looks at the underlying cash result. We can't actually pay dividends out of the IFRS profits, because not all the bits was intangibles. Having said that though, you do need distributable reserves to pay a dividend, though the IFRS result becomes important there, but there is lots of headrooms. So it's not going to cause a problem.

A - Ian Gascoigne {BIO 4439479 <GO>}

And in terms of growth of the -- whether its partner numbers or adviser numbers, I think our commitment is to grow the distribution bringing 5% and 6% per annum. That's the target range. Additionally, we've accounted the individual partner business as the number, while that the heights is the fact that the current recruitment trends is less-and-less one man bands or traders and more on more small groupings of business of two or three, basically one business could contain three advisers, so that's why we started to report the total number of advisers, and we will be looking in that target range between 5% and 6% going forward.

A - David Bellamy {BIO 14025555 <GO>}

Yes, a pretty similar shape in both. As Ian said, the 5% to 6% goal is consistent across total advisers and partner numbers. And the reality is that the recruitment of the new advisers or new businesses there has changed type a bit. What I was trying to say that, we're recruiting people today that we wouldn't recruit it five years ago. But just the strength of the business and the marketplace today, and St. James's Place reputation I guess. Alright. One more at the back here and then we'll bring the mike forward.

Q - Ravi Tanna {BIO 16926941 <GO>}

Good morning, Ravi Tanna from Goldman Sachs. Couple of questions. First of all, on your -- on the issue with ISA [ph], really those are very strong in the first half. I'm just curious to know and what the implications from the budget changes will be in terms of flexibility between stock and cash ISAs, are you intending to offer the cash ISA, and then do you think this will have implications for margins going forward?

And second question was just around the academy and I think similar task has exposed, but just trying to get a sense of whether that 5% to 6% is gross if your academy graduates. I can get this, but I just wanted to check. Thank you.

A - David Bellamy {BIO 14025555 <GO>}

Yeah, let me deal with the last one first. The academy, the reason for the academy being in place was to deal with contraction of the market. So we expect the academy when it's in a steady state to be contributing around 25% of our 5% to 6% year, so it's inclusive on growth figures.

In terms of the ISA business, David, do you want to --

A - David Lamb {BIO 15016583 <GO>}

Yeah. We don't plan to offer a cash ISA, however, from July 1 this year we had a cash fund available within our stock market ISA. Now, we can't take cash into the stock market ISA and vice versa. There is no doubt or no impact on our margin, we've always said to investors you should keep short-term cash in the bank, invest medium term, but we have 13 now of our people to, they want to move their cash ISAs across in the stages, for example, coming to the cash fund inside the stock exchange ISAs, stock market ISA, and go into our stock market ISAs.

A - David Bellamy {BIO 14025555 <GO>}

That's fair today. And it's coming.

Q - Jon Hocking {BIO 2163183 <GO>}

Hi. Jon Hocking from Morgan Stanley. I have got three questions, please. Couple of numbers questions. Andy, you very helpfully went through the sort of relative DAC and DER amortization and capitalization. Can we stipulate what you said the point where we can work out where the fact neutralizes and then flips around to be post if you can, is out guidance or reversal after taking ISA four, five years, I guess, when the flip over point happens, first question.

Second question, the FSCS Levy on slide 20, you said some of it is allocated against new business, though it's a small number, but can you tell us how much is against new business and how much is against in-force?

And then just finally on the Blue Door platform. I think Andy mentioned in his presentation again that your user acceptance testing that platform. I just wanted whether you've made a decision yet about how much functionality you're going to give the investment client versus the power-door adviser in terms of whether they're going to check balances, et cetera, online or how much is going to be door if that was a gateway? Thank you.

A - David Bellamy {BIO 14025555 <GO>}

Okay. Let Andy take the first two questions and then we'll come back to the Blue Door point in a minute.

A - Andrew Croft {BIO 5711239 <GO>}

And I recommend you do the third one, so I'll just find the right page.

A - David Bellamy {BIO 14025555 <GO>}

But let me just talk about Blue Door for a minute in term of what it is. It is a back office infrastructure. When I spoke in February, I talked about the unification of our back office Phase 1 of that has happened already. And that was the coming together of the two major administration centers. One in Basildon, one via FTS and 450 odd people in Craigforth were previously managed and were employed by Prudential. IFTS have take over the entire team, so they now employ the 400 odd people that are in Craigforth, and we have unified the back office. What's significant for me about that is that we did that, but they moved to new building on the Craigforth compound, the management teams have changed slightly and been become more integrated and we didn't skip a beat. I mean, the whole thing just was handled exceptionally well. We're now into the Blue Door process, the technology itself, which again is about the back office, so it's about those two administration centers sharing the same technology. It won't impact hugely on partners and clients in the short term in terms of delivering facilities to them, but it will improve the service and then improve the outputs, it will improve the flexibility of what our partners will be able to do.

Then we look at a different sorts of mechanism, a different front office, which I think David and David will touch on this, is called open door, I think so.

A - David Lamb {BIO 15016583 <GO>}

Few quick points. I think first one is in terms of your question study about balances information online, clients can do that today on our current system and that will continue with Blue Door, and David says goes in behind the scenes and takes over the back office mechanism, that's still -- that access online for example current balances every day, running a wealth account online, updates every night, all that's available and will be available once Blue Door goes live. What we're looking at as the second stage to help the partnership is whether or not we want to make an easier deposit, to communicate in mobile way using mobile technology to send information to that clients, switches and things like that, via mobile apps rather than e-mail.

So that will come later, but the absolute in terms of accessing information available online that exists and will continue to exist post Blue Door.

A - David Bellamy {BIO 14025555 <GO>}

Well, that would have bought you enough time?

A - Andrew Croft {BIO 5711239 <GO>}

Yeah, absolutely.

A - David Bellamy {BIO 14025555 <GO>}

Good.

A - Andrew Croft {BIO 5711239 <GO>}

I mean, firstly on your first question, yes, I think you can model where the two flip over from what I'd this morning. I wasn't anticipating that question or I might have gone a bit more exclusive there? On the FSCS Levy, firstly, FSCS Levy is driven by the number of advisers and sort of new business. So therefore, these classified as a new business cost. So, in the cash where we are fetching it from info's and from new business, all in the new business column.

A - David Bellamy {BIO 14025555 <GO>}

Okay. Right over the front here and then we'll -- down the front here, with the pink shirt. Good morning.

Q - Oliver Steel {BIO 6068696 <GO>}

Oliver Steel, Deutsche Bank. And two questions about the margins you are generating new (Technical Difficulty) EV business margin where, yes, there's been a benefit in any case from lower interest rates. But if we look at cash result, the margin on new business is actually lower. I was wondering if you could explain why that is the case, and whether we should extrapolate from that?

And then secondly on 77 bps guidance that you've given. I can understand that if there's a 23% tax rate, tax rates meant to be coming down to I think 21%, so why should we not be building in more than 77 bps going forward?

A - Andrew Croft {BIO 5711239 <GO>}

I'll do the first one first. I think it's probably worth saying, we are not seeing margin pressure and we have not changed the pricing of the offering to clients nor at this point in time do we see the need to do so. What we are seeing in the first six months of this year is a run rate of production cost is marginally higher, more sort of slight step up that was in the trend.

And the final point relates to where -- if a new adviser joins us and one of his existing clients to use an example wants to come into the SJP proposition, had that clients recently purchased an other investments and had a upfront cost associated with that. We think it's inappropriate for the clients suffer a second upfront cost in such a short period of time.

So therefore, neither the adviser or the company will take any upfront costs on that business. Now it is a small proportion of the business and the reason why it's probably coming through the numbers a little bit is because the numbers of advisers that we've recruited over the last sort of 12 to 18 months.

On the 77 bps, I mean, we've always had that 77, 78 bps type thing. We've got 46 billion of funds under management that's been accumulated over the last 22 years, some of that's going to be very large cases which will be done on a discounted basis.

And there are different tax regimes flying around in here and they have over the 20 years being different pricing changes from time to time. If you remember leading up to where they are, we reduced the initial adviser margin to partners but we increased the ongoing adviser charge on unit trust and ISAs, as you start proceeding further when post RDR business, that's why you find you don't get the 80 basis points. But the 77 basis points (Technical Difficulty). We're not seeing margin pressure now. I don't know whether these guys want to add anything.

A - David Bellamy {BIO 14025555 <GO>}

No, there's no evidence of that all (Technical Difficulty) answer from Andy and that's exactly where we are. And what's interesting is when you look at analysis, David, and the audience did some really comprehensive analysis on adviser charges and total costs in terms of reduction in yields and well that's said was exactly what we believed that in the medium to long term, especially from three to six years out, we are very competitive amongst the cheapest in that space. And I think clients are increasingly recognizing that fact. And we give (Technical Difficulty) extremely good value. But I would that would not, I just want to hear that.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Andrew Sinclair from Bank of America Merrill Lynch. Just following up from Oliver's question. If the recruitment rates is slightly slower than it has been for the last two exceptional years, and you are on having less perhaps having this deeper entry into certain products, does that mean that the new business margins could actually drift off over the next couple of years, if there is also yield, no margin pressure?

Secondly, just think if this has been a better chart in the press, recently about reducing tax relief on pension contributions, just wondering if essentially what your thoughts are on -- for the follow-up, would that be or for St. James's, would that be an opportunity or a threat?

And also just finishing up on ISA sales again, wondered if you are seeing a similar proportion of customers still marching over ISA 11's post the July 1st increase? Thanks.

A - David Bellamy {BIO 14025555 <GO>}

The adviser growth I think, Andy, correct me if I am wrong, the reason why we are showing number of partners and number and number of advisers now is because that there has been similar growth and we are pointing more towards similar growth in the first six months of this year to our previous two years. So there has not been any discernible change in that in the first six months of this year. If you look at advisers, as the capacity of the business has gone up, still at that sort of top end, exceeding that top end of our normal range.

And so, we're not quite sure whether that we're going to see any significant shifts in the short term in that particular measure, ISA sales, David?

A - David Lamb {BIO 15016583 <GO>}

I mean, it's -- ISA matching opposition, again this tax here, so it's very early days. But we are not expecting any fallback in terms of people maxing out. I look at the ones that do regular monthly ISAs, the ones with Fortune maxing out there and fortune maxing are now pretty much exactly the same. But it's too early to say what's going to happen in the single pay-losses, though I need to start off a new tax year.

Going to your point about pensions, what's interesting, post data, it was GBP235,000 in the pension, the higher rate tax rate meant a lot, that's coming right down to the contribution of its and you can't do anything like that GBP40,000 maximum contribution of its.

I think level tax rate would be quite interesting, I think will expanded market, intentions alongside the changes in the last budget in terms of the utilization. But I think you might find a lot more interest in the pensions market. But in terms of content effect, that's isn't a big impact for SJP because you got that full off in the maximum contribution level. I think it would be positive market generally and that's a positive for us, alongside the annuity impact very positive in terms of outlook, in terms of pensions going forward, just because of the shape of the market.

A - David Bellamy {BIO 14025555 <GO>}

If I could just add an EV point there. The amount you can contribute again fairly in April from --

A - Andrew Croft {BIO 5711239 <GO>}

50 to 40.

A - David Bellamy {BIO 14025555 <GO>}

Yeah. That was a bit of -- And so therefore, we have seen in our in-force local regular training and pension some people are happening to reduce their contribution 50 down to 40. The slight negative impact of that is included in the embedded value, that's already in there.

David, and then Barrie.

Q - David Mccann {BIO 15885639 <GO>}

Good morning. It's David Mccann from Numis. And you actually just touched on part of my question just then and out, pension contribution that may come in down. Obviously, you talked about the ISA limit going up around 3,000 this year. We do not think overall for your business, the pension contribution limit coming down by 10,000 mostly offset that ISA change or -- and if not may be give us more color as to why you think overall -- I mean, you think it's a positive.

Then second one on Henley, you mentioned at the end, David, 50 or so adviser coming into the business in this half, and moving the numbers. And now is that 50 partners or is that 50 advisers or is it therefore one partner coming in and also does this get included within your fund under management?

A - David Bellamy {BIO 14025555 <GO>}

Okay, let's just take the first one and Ian can talk about the adviser numbers. I mean, one of the things that Andy said when we do our investor road show, when we talk about those pension contributions coming down and the limits coming down it's that people who will find -- will invest the money for the future because that's what they do, and that's why we've seen unit trust sales and ISA sales in the last two or three years being the fastest growing of our wrappers. But we've seen pension contributions coming down but that doesn't stop clients from investing. So I don't believe you will see any significant change for the 50 down to 40 in terms of people wishing to invest money.

They have got money to invest from invested, the rapo has changed, unfortunately ISAs will be the place where people go first, as we've seen on that leap table. But I don't think we are going to see any net impact on the business that's anything other than positive. I think in terms of the adviser numbers --

A - Ian Gascoigne {BIO 4439479 <GO>}

Yeah with regard to Henley that is very some much 50 sole trader businesses that we've acquired as part of that group. So there will be an appointed as individuals representing the Henley Group, which is part of St. James's Place, but for the round numbers it will be 50 sole trader (Technical Difficulty) partners, yeah.

A - David Bellamy {BIO 14025555 <GO>}

Barrie, just pass -- David, can you pass the mike along? Thank you.

Q - Barrie Cornes {BIO 2389115 <GO>}

Good morning. Barrie Cornes from Panmure Gordon. I've got three questions. following ON from David's question about the Henley group, it took a long time to complete (Technical Difficulty). Secondly, growth (Technical Difficulty) will you report that (Technical Difficulty). The last question I had was you impose pretty strict standards or restrictions if you like on your partners, that's what they can and can't do outside of the -- will that apply to the --

A - David Bellamy {BIO 14025555 <GO>}

Will that apply to?

Q - Barrie Cornes {BIO 2389115 <GO>}

To the -- from the associates --

A - David Bellamy {BIO 14025555 <GO>}

Advisers?

Q - Barrie Cornes {BIO 2389115 <GO>}

Yeah, the advisers.

A - David Bellamy {BIO 14025555 <GO>}

Okay. Well, the last one is easy to deal with. Yes; they are the subordinate players to our partners. So they work for partners and the partner -- the whole business carries the same responsibility. We've got more pressures today than we've ever been. So there is no weakening or loosening of the soundness in that area. And can talk about Henley a bit more in terms of why it took you so long David to get it authorized and approved?

A - David Lamb {BIO 15016583 <GO>}

The choice of dealing with three regulators in three different countries and all of them deal in different way, in different time scale, so that's the reality and what it takes longer because it takes longer, we're working through the regulatory process, a lot of detailed paperwork and stuff going back and forth, it's more exciting than that (Technical Difficulty).

A - David Bellamy {BIO 14025555 <GO>}

And growth in terms of advisers and business generally -- yeah, the final question.

A - Andrew Croft {BIO 5711239 <GO>}

Yeah. I mean, we are going into these jurisdictions, because we see great opportunity there and we see great opportunity for our brand, the way we do business and we see large numbers of international experts wanting to deal with the company like St. James's

Place and in the Far East, this is a part of the world that's not best served by this business, in terms of the nature of business and the product's available. The way are offering a new way of doing business so those jurisdictions and we're very optimistic about it.

And as David said, we've already been in contact and people have made contact with those of advisers and businesses in those parts of the world who want to meet out, where we are fairly optimistic.

A - David Bellamy {BIO 14025555 <GO>}

It's early days for us, which is why I didn't cover any detail in this but we went into this on the basis that this would be three locations that almost a region, like the 10 regions we've got, of 200 people in each region in the UK. So you can see this as sort of 5% to 10% of our business when we get this up and running, in the fullness of time, assuming we can get to that sort of core of somewhere between 100 and 200 advisers operating at those three jurisdictions. It will become like another regional locations that we got in the UK, that's the sort of aspiration.

Q - Barrie Cornes {BIO 2389115 <GO>}

Will you report that separately that line then? The Henley Group, the whole industry in the --

A - David Bellamy {BIO 14025555 <GO>}

I think we will bring it inside, but you'll get the details of it. (Technical Difficulty)

Q - Barrie Cornes {BIO 2389115 <GO>}

Yeah, sorry. Tudor here. Thanks, Allison.

Q - Paul De'ath

Hi. Paul De'ath from RBC. Just couple questions please on guidance. Firstly, the government's guidance guarantee thing they are bringing into people who are retiring. Do you see that having any impact on your business at all or essentially how is that going to impact your customers?

And second point is on guidance on defined benefit to defined contribution transfers, now the government has come out and said that there is some still be around. Do you have a kind of company-wide policy on what your bonus can advice on those and do you see as any kind of opportunity to shift the money across?

A - David Bellamy {BIO 14025555 <GO>}

I'll let David talk about the second question. Can you hear, David, by the way clearly out there, because up here it's running -- this mike is on a little (inaudible). You can hear it clear? Okay.

On the first point, the -- I guess the MAS service, Money Advice Service, if that takes on the guidance role at which time in and on that transaction, then so be it. I think there's been quite a bid of feedback from the industry. This is looked, which should you see this work in progress right now and trying to help the treasury, the regulators get to the right place with the Money Advice Service, that is going to be for a section of society that I don't think is going to typically be our clients, which is why I was making the point that our job is to build long-term relationships that's what we aspire to do and that's what we do.

And that's about the accumulation phase, the preservation phase and the de-accumulation phase as distinct from seeing this as a transaction, for us that's risky and probably inappropriate and I think we need to work with Treasury and regulators to try and get that point across.

So no real impact on the business. And there is interestingly some statistics coming out from I think Watson Wire yesterday, talking about the growth in the pension market over the next 10 years and they talk about tripling to GBP50 billion pounds worth of funds effectively being taken out of the accumulation stage and invested, which sounds positive frankly. It does sound like it's a big job for the guidance regime, set that aside, it also feels like the rest of the market growth is going to grow quite positively as well. Going to pick up on the point --

A - Andrew Croft {BIO 5711239 <GO>}

On the final side point final set of it to DT type pension schemes. We don't think that there will be a major changes because we are not looking to take money from final side point pension schemes into DT schemes today, pre the announcement. It's very rare that someone would do it, that kind of a chance. And you can certainly construct some sensible slides and it is advisable not probably revolves around the credit worthiness of the scheme sponsor and the company and things like that. So, I don't think it's going to be a major catalytic change for us at all, it's an area that we look at from time to time, but it's a small part of our overall business, the bigger opportunities David just alluded to, is the time in market place and the growth in funds coming through over the next 10 years, as that cohort comes into being which is -- we've not seen before. And the GBP50 billion market, it looks some light number, but it's not surprising. It's a big market.

If we did take a DV to DC sort of transfer, that is where we could for instance have no initial margin, because the partner may well give up renovation, we may now give up the initial margin as well. So that could be another category of business, for instance.

A - David Bellamy {BIO 14025555 <GO>}

Okay. One last question and then we'll call it around. So --

Q - Alan Devlin {BIO 5936254 <GO>}

Alan Devlin from Barclays. A couple numbers questions. First of all, can you just remind us what your interest rate leverage is, as short-term interest rate move up year-on-year and what your cash and short-term investments are on the balance sheet?

And then just second on the dividend reserve, if you could -- and what's the rationale for holding the dividend reserve, even the prior market (inaudible) 100% of the cash, would you pay it more than 100% of cash if it was a semi-urban market and your cash is under pressure if you said that was temporary? Thanks.

A - David Bellamy {BIO 14025555 <GO>}

If I do the interest rate first. And again it's all in the financial review. We're predominantly holding our surplus capital in AAA rated money market funds and short-term cash deposits.

So, essentially we're earning base rate. It may be slight above base rate in different places. So, as the interest rates go up, that will feed through into the cash result.

In terms of the dividend reserve, I think we have to recognize that our cash flows are very, very dependent upon the market, which is something obviously we can't control.

So, at this stage, we believe it is prudent to have that dividend reserve to prevent us hopefully ever having to cut the dividend.

But it's a good point for the future (Technical Difficulty) we can smooth, should we need to. But there is still a fundamental question in terms of the long-term dividend policy, does it take 70, do we -- we get up once we've got the reserve, those are things that the Board will address and is, as I say, a very tropical subject for us right now.

Let's call it there. And more coffee and tine if anybody wants to hang around, and the four of us (inaudible) at the back as well. Chairman, I just feel uncomfortable saying that. Anyway, Chairman is here as well. So, any questions, we'll have there. I'm happy to talk. Thank you very much and thanks, guys.