

St. James's Place plc LSE:STJ

FY 2017 Earnings Call Transcripts

Wednesday, February 28, 2018 10:30 AM GMT
S&P Global Market Intelligence Estimates

	-FY 2017-			-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.41	0.36	▼ (12.20 %)	0.51
Revenue (mm)	1539.00	1800.10	▲ 16.97	1769.29

Currency: GBP

Consensus as of Feb-28-2018 9:35 AM GMT

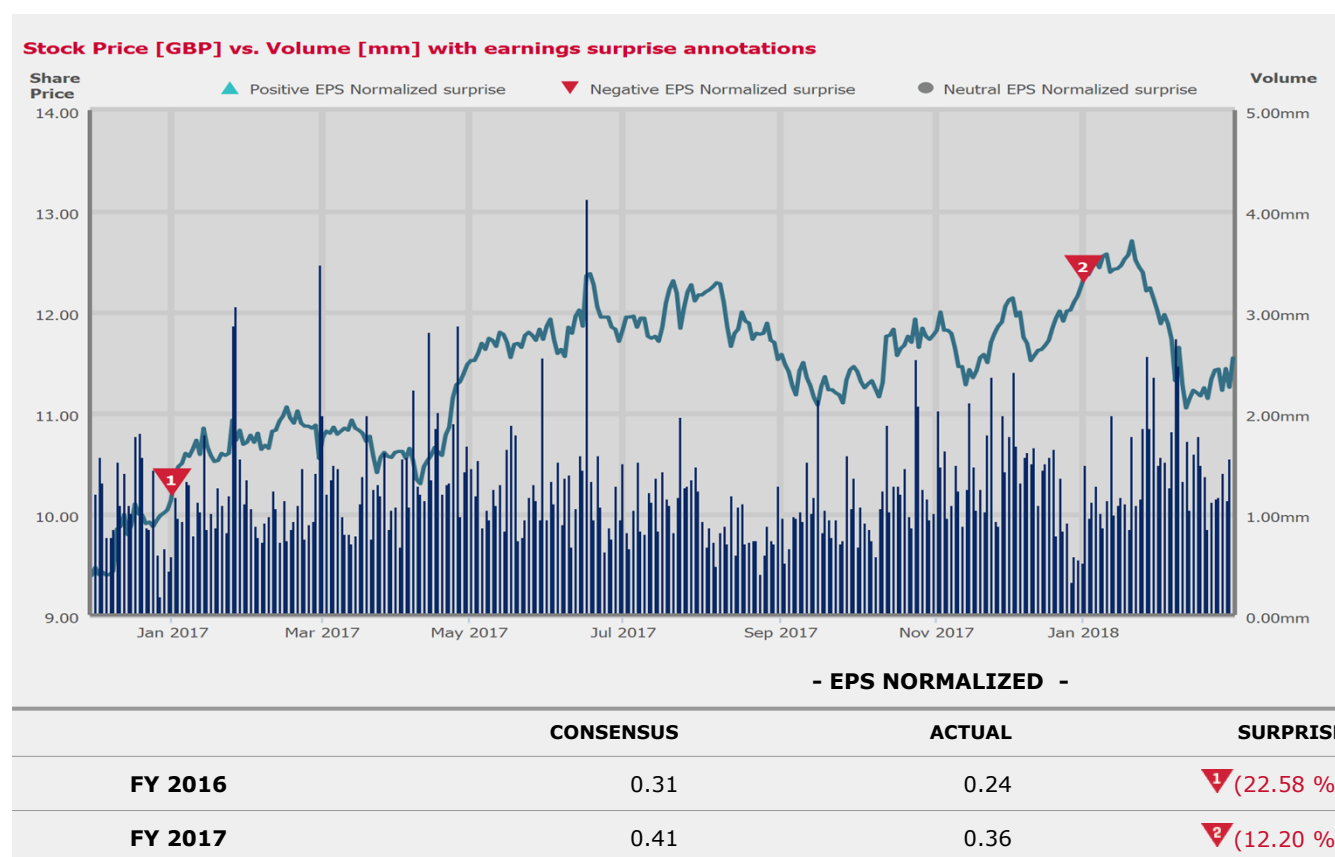


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Call Participants

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CFO & Director

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Presentation

Andrew Croft
CEO & Director

So good morning, everyone. Shall we get started? I worked out this morning that today is my 30th SJP Results Presentation, albeit it is the first as CEO.

Before I kick off the main proceedings, I'd just like to say a few things. Firstly, it's a great honor and privilege to be taking on the role as CEO. And secondly, I'd like to acknowledge the enormous contribution made by my predecessor, David Bellamy. David joined at the inception of the company and has given 26 years of service to the group, the last 11 as a very successful CEO. It's been my pleasure to have worked alongside David over 25 years and as his CFO for the last 11 years.

On a more somber note, we sadly lost Mike Wilson yesterday, one of our founders and the inspiration behind St. James's Place. We owe him so much. He was very proud of the success we've had, and indeed, the results we have announced today.

So today's proceedings. I will shortly hand over to our new CFO, Craig Gentle, who I know many of you have already met. Craig will go through the financial results for the year before handing back to me for some comments around our future. I will then ask David, Iain and Craig to join me for Q&A before closing.

We also have a number of our other board directors and members of my executive team here today, so do feel free to seek them out over coffee at the end.

2017 has been a very strong year for the business with many new records achieved, and to take you through these numbers, I hand you over to Craig.

Craig Gordon Gentle
CFO & Director

Thanks, Andy, and good morning, everyone. I am delighted to be presenting my first results as CFO. Those of you who I've met will have heard me say that there are -- we're a very straightforward business, but we're made complicated by an accounting framework that isn't particularly well suited to us, and frankly, that's unlikely to change. So for this reason, I think it remains entirely appropriate for us to continue to present the alternative measures that you're used to seeing and to do so on a consistent basis.

The areas that I plan to cover therefore this morning are: firstly, a recap on the new business announcement that we made back in January; the cash result, which shows the way in which cash has emerged within the group over the past year and the embedded value result, which views the group on a net present value basis, excluding, of course, new business, so that's just based on an existing business basis; I'll also make some comments on solvency; and finally, on the dividend.

In keeping with Andy's approach, I'm not planning to cover IFRS in any real detail, but it is important to note that the cash result that I'll come on to in a moment is derived from the IFRS balance sheet and this is set out in your packs. You may find the approach I take in presentation is different to your experience in the past, but please do rest assured that the information you're used to seeing and receiving is in the pack if I don't cover it in my presentation.

Firstly, then, a quick recap on our recent new business announcement where we reported gross inflows of GBP 14.6 billion, which is growth of 29%. This, coupled with very strong retention, saw net inflows grow by 40% to GBP 9.5 billion. And this growth in flows, together with positive investment returns, resulted in funds under management reaching GBP 90.7 billion, which means that we've more than doubled our funds under management over the past 4 years. We also announced our year-end adviser numbers, which stood at 3,661, a year-on-year growth of 7%. So given the long-term nature of our business and the emergence of shareholder value over time, it goes without saying that the growth in both funds under management and adviser numbers that we've already reported bodes very well for the future.

I'll now cover the cash result, and as a reminder, this presentation sets out the way in which cash has emerged. And as such, given the presence of significant distributable reserves and a strong capital position, it serves as a good indicator of our ability to grow dividends.

Starting with the operating cash results. The strong growth in funds under management is reflected in a 22% increase in net annual management fees. Following on from this, we then see a couple of impacts from the investment contracts liability reassessment that we reported last year, and as a reminder, this was a change to the estimates of fair values to get the contract values down to the encashment value and that's the approach that's consistent with IFRS and Solvency II. The results as we said at that time is entirely neutral for embedded value and for IFRS, but the impact on cash was to bring forward a cumulative emergence of GBP 267 million into last year's closing cash balance sheet position. And this was cash that would have otherwise emerged over the following 6 years, which has the effect of increasing the reduction for fees and gestations throughout the remainder of that period. The number which for 2017 was GBP 266 million will, of course, continue to grow as we grow our funds under management and it serves as a very clear indicator of future cash emergence.

On the flip side, the same mechanism has contributed to a significant increase in new business cash flows because of this earlier cash emergence. This is a permanent change in the timing of new business margins that will continue going forwards.

Returning briefly to the funds in gestation. We now have nearly GBP 31 billion in gestation with the full benefits of this flowing into the cash results over the next 6 years. And as a reminder, using our overall post-tax margin of 77 basis points and assuming the balances remain unchanged, this would result in additional net income from funds under management of approaching GBP 0.25 billion.

Moving on to expenses. For presentational purposes, we've aggregated establishment and operational development expenses together with regulatory and FSCS fees. Overall, expenses have moved very much in the way that you would expect them to given the significant growth that we experienced during the course of the year, but it is worth noting that our contribution to FSCS has increased to a net figure of GBP 17 million, which is at a pretty frustrating high level. As you would expect, we've participated in recent consultations on FSCS cost, but at this point in time, I'm afraid we see very little light at the end of this particular tunnel.

As you can see, there's been little movement to speak of in either shareholder interest or tax relief from capital losses. But one point to note here is that we have GBP 86 million of capital losses available for future relief that we expect to be utilized more or less evenly over the next 8 years.

Our operating cash results, taking account of all of this, was 39% up at GBP 315.2 million.

Moving from operating cash to the underlying cash result. We continue to invest in the Academy, which goes from strength to strength. The valuable contribution that it's now making means that now is the right time to move it into operating cash for future reporting periods. We also continue to invest in our operations in Asia, where we now have 120 advisers across 3 territories, together with a fully licensed and operational Life company in Hong Kong.

Rowan Dartington absorbed GBP 6.9 million of investment as we continued to invest in infrastructure and technology that will cater for future growth. You'll have seen during the year that Rowan Dartington's funds under management passed the GBP 2 billion mark, which demonstrates a very strong and attractive client proposition that complements the core SJP investment management approach. We expect the results -- sorry, we expect the cash result of Rowan Dartington and Asia to remain broadly consistent in 2018, and what this means is future increased revenues will be funding future investment cost.

All of this results in an underlying cash result of GBP 281.2 million, which represents an increase of 41% compared to 2016. As I'll emphasize later, this is an important figure when considering the dividend.

Back office infrastructure developments reflect a number of activities, but principally our multiyear project to migrate our business onto the Bluedoor system and the administrative processes that surround it. The charge of GBP 21.7 million includes dual running costs now that we have almost 1/3 of our funds under management and 2/3 of our new business on Bluedoor, whilst we run and maintain legacy systems for

business yet to be migrated. We are now, however, drawing up final plans for the remainder of our U.K. business and the migration onto Bluedoor and we're targeting to complete this during 2018 and 2019. Once complete, we'll experience the full benefit of single-system running costs together with the efficiency that Bluedoor will continue to bring. In the meantime, for modeling purposes, you should use the second half run rate for 2017 as an indicator of future below-the-line costs.

I'll comment now, excuse me, on our EEV results. The new business profit for the year was GBP 779.8 million, which is 50% up on 2016. There are 2 major drivers behind this increase. Firstly, and most significantly, it reflects the strong growth in gross inflows of 29% that I've already mentioned. It also reflects increased operational leverage together with an embedded value benefit of our new retirement account, which incorporates the investments in drawdown period into the same contract boundary. Under EEV rules, this results in a longer expected life for the contract. And this has resulted in a benefit to EEV during the year, and we can expect this benefit to continue for future new business.

Within our disclosures, we've explained that if the same boundaries were to be applied to our existing pension accounts, there'll be an additional embedded value of approximately GBP 400 million based on our past experience of retaining funds into drawdown. There are no plans to change existing contracts, and therefore, this unrecorded value remains outside of our EEV results and balance sheet.

2017 also saw positive net operating assumption changes of GBP 44 million, largely attributable to taking into account continued strong persistency across-the-board. The EEV operating profits of GBP 918.5 million is then positively impacted by investment return variances and economic assumption changes to result in an EEV profit before tax of GBP 1.289 billion.

Taking account of our 2017 embedded value performance, we now have an EEV net assets per share of GBP 10.67, which, when you remember, excludes any credit for our ability to grow makes a curious comparison to our share price.

Now a brief comment on capital and solvency. Last year, we explained that we'd be carrying out a review about management solvency buffer or MSB. The completion of this, together with our annual reassessment of required capital based on risk and the effect of growth, has resulted in a net release from the MSB in the Life companies for the year of GBP 82 million. This release gives us an opportunity to ensure that our balance sheet has the strength that we need in order to meet our future growth plans and to grow in a sustainable way, which is what we've always done in the past. Importantly, our solvency position remains very strong.

Turning finally to the dividend. At the half year, we announced an increase in the interim dividend of 25%. The group has now reached a stage of its evolution where not only does it have a significant and sustainable stock of distributable profits, it also has the ability to generate significant levels of cash that can and should be used for dividends as well as for ongoing investment. Based on balancing these 2 important needs, we decided to set this year's total dividend to an amount equal to 80% of the underlying cash result. This results in a year-on-year growth of 30%.

Going forward and as a guide, we believe a payout ratio based on 80% of underlying cash is a sustainable basis on which to make future distributions based, of course, on our current growth plans.

So to summarize the 2017 financials, we achieved strong results on all measures. Our growth in funds under management has contributed to an underlying cash result, which is 41% up on last year, and a gestation balance of GBP 31 billion, which, as we stand here now, has already started to contribute to future results. With adviser numbers in December standing at well over 3,600 and with the market opportunity that Andy is just about to cover, there's every reason for confidence. Thank you.

Andrew Croft
CEO & Director

Thank you, Craig. A fantastic set of numbers, I'm sure you will agree.

Whilst Craig and I have the pleasant task of presenting such strong results, we recognize that we would not have achieved these without the hard work and contribution of the whole SJP community. So I'd like to

thank our partners, their advisers and support teams, our employees and everyone in our administration teams who made these results possible. I'd also like to thank our clients for entrusting us with their investments.

Now as you know, I've been with SJP for 25 years, and as CFO, I've been involved in all the major strategic decisions over that time and certainly over the next decade. I have now been CEO for some 8 weeks, so I thought I'd share with you my thoughts on why we have been successful to date and the reasons why I'm confident that we will be as successful in the future as we have been in the past.

I have the privilege of leading a successful business, focused on providing trusted face-to-face financial advice through the St. James's Place partnership, a service which is valued by clients and a business that is performing well. The strength of the relationships that our partners have with their clients mean that our service proposition is always adapting and evolving the needs of those clients. We fully intend to continue with the successful model and invest both in our service to clients and our support of the partnership. We will also strive to get better at everything we do well and improve in those areas where we do less well, while continuing to refine and involve the business. Quite simply, if we deliver on this, we can be confident we can continue to grow both the scale and efficiency of the partnership by 6% to 8% per year, which will provide growth in gross inflows of 15% to 20% per annum. And together with our strong retention of client investments and a modicum of market growth, this will translate into funds under management, and consequently, underlying cash growing at the same rate and this, in turn, should deliver similar growth in the dividend. In fact, I'm not only confident about the future, I believe there are undoubtedly great opportunities ahead for St. James's Place.

Firstly, the marketplace for trustworthy, face-to-face advice is already large, has grown and is forecast to grow still further, supported by favorable demographic trends and the needs for individuals to accumulate and protect their investments in an ever-more complex financial environment. Our target market, that's individuals with investable wealth of between GBP 50,000 and GBP 5 million, currently numbers some 10.5 million, a figure that is projected to grow to over 12 million by 2021. These individuals control wealth of GBP 2.2 trillion today, which will grow to around GBP 2.5 trillion over the same period. Now we currently have some 3% to 4% of this addressable market, so there remains significant headroom for further gains in market share.

In addition, there's a continued switch in responsibility for retirement provision from a combination of state and employer responsibility to one of individual responsibility, which has been accompanied by greater choice and complexity. Today, everyone needs to be their own actuary, their own investment manager and their own trustee of their own pension or they have to find a trusted adviser to do this for them. In addition, if we consider the estimated GBP 300 billion savings gap, then it is clear that people aren't saving enough. And then at the same time, there's an expected GBP 2.8 trillion intergenerational transfer of wealth likely to take place over the coming decades.

So not only is there a growing market, there's also a growing need for advice. Increasingly, as our results show, people are looking for an adviser they can trust, an adviser who will take the financial stress out of their lives, and importantly, an adviser that is supported and backed by financially sound organization with a strong reputation and proposition.

Now despite this strong and growing market for advice, there are not enough financial advisers in the U.K. to meet this demand, and an advice gap has developed. When we opened for business 26 years ago, there were more than 200,000 licensed advisers operating in the U.K. Since then, the number has reduced as, first, Life companies and then banks withdrew from the market. In recent years, there has been a welcome increase in professionalism within the adviser community, but it has been accompanied by further reduction in the number of qualified advisers to the current 30,000 to 35,000. This shrinking pool of advisers is why we established the SJP Academy to recruit and develop our own advisers. No other business is investing in future advisers to the same degree. And it's notable that, during 2017, 124 advisers graduated from our academies whilst 18% of our new business from London was advised on by former Academy graduates. Today, we have 261 individuals attending the Academy and we would expect to add a further 250 or so to the program with our 2018 intakes. Unsurprisingly, we are very pleased with the contribution the Academy is now making to the breadths and depths of the partnership.

And a final point to make on the adviser market is that, given the qualifications required, the regulatory burden and the long payback period for any investment in this area, there are considerable barriers to entry and perhaps this is why we're not seeing new entrants.

So the size of the market is large and growing with a considerable savings gap that needs to be bridged. The need and demand for trusted face-to-face advice has never been greater whilst, at the same time, the number of qualified advisers is insufficient creating an advice gap, the perfect environment for client-focused advice business like ours.

So what makes St. James's Place an attractive proposition to clients? For me, there are 3 key aspects. First and foremost is the strength of the partnership, some of the best and most experienced advisers in the industry spread throughout the U.K. and with offices in Hong Kong, Singapore and Shanghai. With our focus on developing long-term relationships that span client generations, our partners can provide a level of tailored and expert advice that clients truly value.

The second attractive proposition for clients is our investment approach, which we continually improve and develop, led by our investment committee with select best-of-breed fund managers from around the world, and where necessary, change those managers. In addition, we have no in-house investment management, so we have no conflict of interest, which ensures our clients can feel safe in the knowledge we will look after their investment they entrusted us. The breadth of our proposition is growing and means that our clients have well-diversified portfolios, spreading their investment risk and consistently delivering good returns compared to their -- our peer group's over 1 year, as you can see on the current slide, but also over 5 years.

Finally, there is a security that clients have of dealing with St. James's Place partner, knowing that the supervision and support of FTSE 100 firm stands behind everything they do. This includes the due diligence we employ to ensure we avoid unsuitable, complex and toxic products, which keep our client asset safe and free of unnecessary risk; the technical support that stands behind our partners' advice, be it pensions, tax or trust planning. We then quality check some 35,000 cases a year to ensure the advice was correct, and consequently, we guarantee the advice.

Our succession planning for partners means our clients have the peace of mind that they have support and service over the years and we will always be by their side. We are also well capitalized and maintain a strong balance sheet that has been further strengthened this year, as Craig has already mentioned.

Our clients know, therefore, that they can entrust their investments safely with St. James's Place and that we stand behind the advice of our partners. This provides our clients with a significant source of comfort and value.

The mention of value leads me conveniently to one other topic I would like to touch on today, which relates to cost and value. There's a very important point to understand here: our business is focused on delivering good client outcomes. What our clients tell us is that what matters to them is not just the cost that they pay, but importantly, the value that they receive in return.

For client advised by SJP, this value is a sum of 3 components. Firstly, the benefit of advice. Our partners start by understanding a client's goals and objectives from which they can design a personalized, tax-efficient financial plan, utilizing an investment strategy to meet these needs and ensuring clients optimize the tax reliefs available to them, which we refer to as tax alpha. In addition, partners help clients build diversified portfolios to mitigate the impact on their wealth from shocks and then they help them during market downturns to help avoid selling at a loss.

Then there is the personal relationship with an SJP partner, which is tailored to be as much or as little as a client desires. Clients are kept informed and their circumstances reviewed throughout the relationship, being there at key moments of truth in a client's life, including providing the support that is needed at times of vulnerability. And as I covered earlier, there is a security that clients have of dealing with St. James's Place partner, knowing that the supervision and support of a FTSE 100 company -- firm stands behind everything that they do.

And then, finally, there is the net investment return. And as I've already mentioned, we have no in-house investment management, but rather select best-of-breed external managers who are then monitored, and where necessary, changed.

Now as you can imagine, each individual client will place different values to the advice, the personal service and the investment return. It's a very personal calculation, reflecting specific circumstances and personal objectives. Interestingly, the FCA's Financial Lives Surveys, an extensive data collection of exercise, which cover interviews of over 12,000 individuals, provided an analysis of value, satisfaction and trust with regards to financial advice and robo-advice. The results were quite revealing and highlighted that low cost does not necessarily represent value for money. Whilst this reflected feedback across the whole market, the results of our own client survey were even stronger in terms of both satisfaction and value for money, yet more evidence that confirms our view that our all-inclusive total cost is competitive, something we check on a regular basis through the quarterly survey we ask Grant Thornton to conduct on our behalf. Shown here is a comparison of our all-inclusive charge with equivalent all-in costs of other wealth managers, and as you can see, our costs are at the lower end of the scale.

With the advent of MiFID II, the FCA are placing a lot more emphasis on making the total cost clear to clients so that they can see what they are paying in what is still a disaggregated market, summing up the cost for advice, for the platform, for the product wrappers and for the funds. We think this is both helpful for clients, and in a market context, it's also positive for us given the Grant Thornton analysis.

Now hopefully, this has provided you a good view on both the size of our opportunity and the value of advice. There is plenty for us to go for, and I have no doubt that our existing proven business model of focusing on the achievements of the best possible outcome for our clients through a provision of trusted financial advice, together with our distinctive investment management approach, will enable us to continue to grow our business in line with our objectives, which, as I said earlier, remain unchanged at 15% to 20% per annum over the medium term. This will result in both growing funds under management and a growing cash result, which will translate into future dividend growth.

Now looking at 2018 specifically. In addition to the business-as-usual task of managing a fast-growing FTSE 100 company, the executive team also have a number of other matters to attend to in the near term. We've seen considerable regulatory change come into effect from the start of this year in the form of MiFID II and PRIIPs. But there is, of course, IDD and GDPR to deliver as well. However, insofar as Brexit is concerned, we are relatively immune from the outcomes of trade negotiations.

Continuation of the journey to complete our back office infrastructure program, which will enable us to consolidate our U.K. administration onto a single client-centric platform to deliver a more holistic service to our clients whilst leveraging modern technology. We already have GBP 28 billion of our client funds and approximately 2/3 of our gross inflows being administered on the platform. Further migrations planned for 2018 will take the funds administered on the platform to 2/3 with the final U.K. funds being migrated in 2019 as we complete the project.

We also continue to build on the ongoing evolution of our investment management approach to ensure we provide both ongoing strong investment returns to clients and that we have sufficient capacity for our journey to GBP 200 billion of funds under management. In this context, I should remind you of the recent new additions we've made to our portfolios: the launch of a Japanese fund and our commitment to improve governance in this area by signing up to the UN principles of responsible investing.

We will continue building our business and proposition in Asia, adding to the existing 120 advisers and GBP 420 million of funds under management in our 3 locations of Hong Kong, Singapore and Shanghai.

We will also continue the development of Rowan Dartington, which will see a further increase in the 46 investment executives and further strong growth in the current GBP 2.1 billion of funds under management.

Both Asia and Rowan Dartington are seeds we have sown for the longer term. We are pleased with how both investments are developing, but it will take time and patience for these businesses to achieve scale.

Now at the heart of St. James's Place is a people business. Attracting, developing and retaining the most talented people is in our DNA. In 2018, we will continue to invest in our people, focusing on recruiting, retaining and developing the best talent across the whole of the SJP community.

So lots on, but I'm confident we have the right business model and the best financial advisers and support teams in the U.K. I'm also fortunate to have an excellent executive team with over 100 years of combined SJP experience. So that's me done. But before asking my colleagues to join me for the Q&A, let's just finish with a quick summary.

A great set of numbers. A record year in many respects. We see great opportunities ahead with a large and growing market, an increasing demand for trusted, face-to-face advice whilst at the same time there is an advice gap. This gives us confidence in our ability to deliver sustained growth in line with our stated medium-term objective of 15% to 20% per annum. We have further strengthened the balance sheet and increased the 2017 full year dividend by 30% whilst also providing guidance for higher payout ratio for the future, a testament to the strength of the business.

So could I ask David, Iain and Craig to join me, please?

Question and Answer

Andrew Croft
CEO & Director

So after 11 years or so, I've always wondered what it's like to stand here dishing out the questions to your colleagues. So I'm looking forward to -- Iain knows he's getting all the financial ones. But anyway, questions? We have some roving microphones as well. There's a question down. We should do this question here. Katie, thank you. I'll come back to you in a minute.

Ravi Tanna
Goldman Sachs Group Inc., Research Division

It's Ravi Tanna from Goldman Sachs. I have 3 questions, please. The first one was on regulation and MiFID, you obviously mentioned this had some impact. I suppose one of the areas is that I expect fees now need to be disclosed, I believe, on an absolute basis while than just on a percentage terms. I was wondering has there been much feedback in terms of partner conversations with the clients as to the impacts of MiFID? Or has it been relatively seamless? I'd just be interested in some feedback around that, please. Second one was just on solvency and the management solvency buffer for, it's really just a point of clarification. Do you see that fully as a onetime process? Or will the way that the solvency evolves leads to potential future contributions or releases that will support dividend payments? And the third one is on the DB pension transfer market, just curious for an update there, please, as to kind of the contributions to your pension flows and business from that. Obviously, there's been a lot of noise around mis-selling practices and so on.

Andrew Croft
CEO & Director

I think I'm going to really enjoy this. Craig, do you want to take the solvency. And then, David, maybe you take the MiFID and DB transfer question. Craig, do you want to go first?

Craig Gordon Gentle
CFO & Director

So the MSB review, this was something we trialed last year because something particular happened, which resulted in moving a significant sum away from units into cash, and therefore, it stood to reason that within that sizable adjustment, there was a reduction in risk for the group. And we decided that the time would be right to review the MSB at that stage. The reality is that MSB and capital is subject to constant reassessment not just in the Life bit of the group, but elsewhere within the group. We have an annual also process in the same way that other groups do, and that, together with all sorts of other inputs, which range from future investment, which take into account current growth paths, contribute to a range of answers. So I don't think I see any particular reason to say there's either a release or a hike. I think we can assume that a large component of the MSB, as you see it, will grow in line with the growth in the business on the basis that growth in the business usually means from a regulatory perspective a change in risk profile.

David J. Lamb
Former MD & Executive Director

Okay. I think on MiFID II, I think you're right, it's early days. I think we see no particular impact of it. Other people are focusing on disclosure of fees and charges, this is not new. So I remember going back to 1995, the first disclosure regime came in. We've been doing this for a long time in absolute terms as well as percentages. So every client today has always had an illustration with the numbers in front of them before they even invest. So MiFID II is a continuation of the journey of regulatory change. That's just part of our lives. So we'll continue to deal with it and educate people, both in the partnership and in terms of clients. In broad terms, we've always been in favor of total cost disclosure is the right way so clients understand the value of what they're getting anyway. So no concerns there. And DB transfers, a lot of

noise about it. I think the danger is you miss the bigger picture here because if you go back to pensions freedoms, pension is a big market, which will grow. It's not a DB transfer market only. In our case, it's sort of relatively low-volume, but higher-value cases, which is fine. But the maturity of the pensions market, we're nowhere near that stage yet. And I wouldn't want anyone to walk away without realizing that the pensions freedom changes are much more important in terms of the growth of the pensions market going forward.

Andrew Croft
CEO & Director

Okay. Ravi, do you still have the -- no, you don't. So there's one here and there's one over there. So if you come down the middle and you can go either left or right.

Charlie Beeching
Keefe, Bruyette & Woods Limited, Research Division

It's Charlie Beeching, KBW. Just in terms of the Bluedoor implementation, I believe at the interim, you suggested an 18-month time frame. So what you are now saying that the remaining 1/3 will be in 2019. If we could get to have some comfort on how that's progressing and also in terms of your relationship with the provider? And also just in terms of your fund selection, I suppose you've had a bit of, in the press, in terms of adverse fund performance recently. Have you made any changes to your selected advisers?

Andrew Croft
CEO & Director

Okay, David, do you want to pick up the investment one, first? And then I'll ask Craig to pick up the Bluedoor one.

David J. Lamb
Former MD & Executive Director

We make changes on a sort of pretty much continuous basis if you look back. I mean, I'd love to have relationship with fund managers that never change, that hasn't proven possible in the last 26 years. We have some that have been going 20 years-plus. So we're making changes that have been announced some in January, so we announced a change to appoint GMO and Jennison. There'll be other announcements this year. I won't tell you them now, but we have to wait for those until the appropriate time. So it's a dynamic process. The select monitor change of assessing fund managers is continuous, it's real, and it's robust and it's served us very well over the years.

Craig Gordon Gentle
CFO & Director

And on Bluedoor, you mentioned 1/3, 2/3. The statistics are approximately 2/3 of new business goes onto Bluedoor, but 1/3 of our funds under management are on Bluedoor. And the task ahead of us is the migration of those existing funds under management. What we're anticipating is completing that exercise during the course of 2018 and 2019. It's worth bearing in mind that since the decision to move over to Bluedoor was made, we're twice the size. And therefore, these migrations, you wouldn't say necessarily twice the complexity, but they're certainly far more sizable and more complicated than they would have been at the very early planning stages. And what we're doing is setting ourselves a time frame where we can do it, do it in the right way and do it in a way that gives us the results that we need without having adverse impacts.

Andrew Croft
CEO & Director

Now I would say from where I stand today, we will finish this in 2019.

Charlie Beeching
Keefe, Bruyette & Woods Limited, Research Division

[When will it] increase your previous?

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Andrew Croft
CEO & Director

Look, this will take as long as it takes. The last thing we want to be doing is migrating when we're not ready. But what I'd also say is that actually we look at the numbers in the cash flow. It's below the underlying cash results that's not a dividend point. And actually, it's relatively small compared to some of the other numbers. And we know it's a short-term project. I think your other question was around of relationship?

Charlie Beeching
Keefe, Bruyette & Woods Limited, Research Division

Yes.

Andrew Croft
CEO & Director

We have a very strong relationship with DST. But I'm sure, as a number of you know, DST is in the process of being acquired by SS&C. We are unable to talk to SS&C at the moment due to antitrust clearance in the U.S., which I think we're expecting towards the beginning of March, just looking out there. But what we know is that we represent a large proportion of the combined entities' revenue and profit, so I'm sure we'll get on fine.

Charlie Beeching
Keefe, Bruyette & Woods Limited, Research Division

He said that if that didn't -- if that had an adverse outcome that you would look to take it over, is that more likely, the sales?

Andrew Croft
CEO & Director

I'm not sure any of us have actually said that. That's clearly always a contingency that's there, but long way to go in terms of conversations.

Colm Kelly
UBS Investment Bank, Research Division

Colm Kelly, UBS. Firstly, just on the margins, there's always been a very strong pickup in the new business contribution from embedded value from the lower admin costs. Are we beginning to see that come through into the cash results when we think about the net new business margin, given 2/3 of the new businesses coming through from the Bluedoor project? Secondly, on solvency, and I appreciate we've touched on this a little bit already. The Life insurance entity solvency has come down to 111% and it's come down on average by about 15 percentage points per annum and that's reflecting the very strong growth in the business. I appreciate solvency is not a very good fit for this business, but given the Life entity generates a lot of the cash for the group, how confident are you that the ratio will remain above 100% without having any impact on the remittances? Or should we be seeing some management actions coming through similar to before that, that will certainly help that position? And then, thirdly, on international expansion. There's been good progress in terms of Asia and Rowan Dartington. Is there likely to be expansion into further markets in 2018? Or is the focus very much in terms of building out the existing expansion and continuing that strong progress?

Andrew Croft
CEO & Director

Okay. Well, I'll do the Asia one and then pass over to Craig. We've got no current plans to expand beyond Hong Kong, Singapore and Shanghai. One can never say never. Craig, do you want to take the solvency and the margin question?

Craig Gordon Gentle
CFO & Director

Yes. Taking the effect of Bluedoor first, the area where you see that the most clearly is within the embedded value results clearly because the embedded value account takes account of the full position posts dual running costs. If you look at the cash position overall, we've called out the fact that this is the point of the overall project where you do really begin to notice the dual running cost is inevitable. It would feature in any project. Yes, we do see and -- but it's also worth saying see and feel the benefits of Bluedoor once migrations are complete and a new business has been written using it. On the solvency point, I think the best way for me to approach the question is to think of it in terms of how comfortable are we and what is our view on 110% of standard formula. And the answer to that is given our risk profile, given the fact that we're a fully matched business, very confident indeed that, that is a very prudent position for us. As we discussed in the past, it's very difficult to make comparison between SJP and the statistics that flow from any kind of Solvency II modeling and any other kind of insurance business certainly that I can think of. In terms of management actions, I can't really think where there would be a need for a management action. But I go back to the point I made earlier, which is that in any kind of capital situation, there'll be certain things that move in a very logical way and there'll be certain smaller elements that will move counterintuitively. But the majority of what we hold as capital, when you look at it from an MSB perspective, will grow as the business grows. So that's probably all I can really say. But the key thing is that 110% is, in our view, a very secure and safe position.

Andrew Croft
CEO & Director

I think there was another question down just in front, from Andrew.

Andrew Sinclair
BofA Merrill Lynch, Research Division

It's Andrew Sinclair from BofA Merrill Lynch. Three questions, as usual. Firstly, on productivity, really been improving really strongly over the last few years. Do you see any sort of kind of upper limit of where that can get to and perhaps not go further? Or do you think the sky really is the limit on productivity? Secondly, on back office again, sorry for another question. Any systems that can be turned off that are currently dual running before the situation completes in 2019, anything that can happen before then? And thirdly, just on the environment for recruiting financial advisers with banks coming back in, has that made really any difference to you guys at all?

Andrew Croft
CEO & Director

Iain, do you want to do the recruitment and productivity?

Iain Rayner
Joint Chief Operating Officer & Member of Executive Board Committee

Yes. Yes, I'll do the productivity question first. We have seen a remarkable increase in productivity over the last 2 or 3 years and I think that's mainly due to partners building a more efficient back office systems themselves, which is freeing them up more time face-to-face with clients because a lot of the other work is done by their infrastructure that they're building. So the professionalization of the businesses has led to increased productivity, but also the environment they're operating in, in terms of the need for advice. So I've often said a lot of our partners are as busy as they want to be at the moment because of the high demand from the preretirement, at-retirement, postretirement generation. So how far that can go? I don't know. But it's a trend I anticipate continuing for the time being. In terms of recruitment, we're not seeing any major competition from the banks threatening to recruit our people or being in the frame at the moment for the same potential people. The banks have got a track record of dipping into this market, failing at it, dipping out, going back in and a kind of cycle whereas I think we can offer a proposition to potential recruits of longevity of their career. So I think if we come into those situations either/or, I think we're well placed to do well. So at the moment, we're not feeling under any threat from that part of the market.

Andrew Croft
CEO & Director

On the Bluedoor question, there's lots of -- sort of parts of the program. But the significant benefit comes when that system called the S-A-L-A system is turned off at the end of the program.

I think I saw another question over here firstly so. And over there as well.

Abilash P.T.

HSBC, Research Division

It's Abilash P.T. from HSBC. I've just got 2 questions. The first one on the dividend, increasing the guidance in the payout to 80%. What exactly has driven that? Is it just you're more comfortable around the group cash generation? Or is there anything that around investments where you feel you don't need any more cash to be retained going forward? And the second one is around the products. You've talked about tapping the intergenerational market going forward. What product or services can we expect around that going forward to help you target that market and generate flows from there?

Andrew Croft

CEO & Director

Craig, the dividend's coming your way.

Craig Gordon Gentle

CFO & Director

There are a number of things that have contributed to the decision that we've made and one of them is around the absolute amount of cash that the group is now generating. If you think of it in terms of cash being applied both for investment purposes and distribution at the end of any reporting period, we get to the stage where the sort of 20% is sufficient for what we need. The strategy is, as Andy's outlined, remains fundamentally unchanged. The investments that you see are on track and therefore 80% is where we would strike an appropriate balance. Now behind that, there's a feeling of obviously confidence and strength within the balance sheet. That was aided during the year, but certainly not driven by, but aided by the slight improvement in the overall capital requirement position. But overall, I would say the capital position is sustainable. We have the distributable profits. And therefore, it's right that, that balance has to be struck and 80% was the point at which we struck at.

Andrew Croft

CEO & Director

David, are you comfortable to do the intergenerational? Yes.

David J. Lamb

Former MD & Executive Director

So let me give you sort of 2 examples of things we did last year directly to this point; and two, the runner-up in the pipeline, if you like, in terms of our thinking going forward. So one of the big things the intergenerational conversations about wealth management is making sure that when something happens, in the event someone dies in the family, how do you control that conversation and help that conversation. So last year, we introduced a new probate service as part of what we do with client servicing and that's beginning to prove really helpful to both generations in terms of not just at the moment, but planning ahead for that moment. And that's going down and being very effective in terms of the relationship side. Because this is all about building, developing and controlling and keeping relationships. And the second thing we did last year was introduce, in conjunction with Metro Bank, was lending against asset, so families that want to help members of the family, for example, getting a house purchased or a deposit for a house, rather than having to sell assets and find cash and hand cash over, actually you can borrow against your St. James's Place portfolio via Metro Bank and do some of deposit funding that way. Actually, that's quite a simple way of showing intergenerational planning at a very practical level. But going forward, some of the opportunities that we see ahead of us are actually genuinely demographically big. So for example, the long-term care market gets talked about an awful lot in the U.K. It's complex. It really is an area where care needs to be taken in terms of the advice you get, not just from a tax planning perspective, but in terms of the relationships that individuals find themselves in, in terms of

receiving care. And that's an area we think is definitely one for growth for us in terms of our proposition going forward. We're doing some work on that at the moment. And the other area goes back to the retirement marketplace. Andy talked about new retirement account and people going into decumulation from having accumulated a pension. It's not that black and white. The tax changes and the pensions freedom mean actually an awful lot of more conversations around what's the most efficient way of doing that conversation, how do you protect some of those assets in that journey going from accumulation to decumulation and what sort of tools you need both to give advice as well as the investment proposition needs alongside that. I'm very excited by -- absolutely by the opportunity in that market alongside long-term care. And then the very practical things I mentioned earlier you actually do today in terms of probate service pouring against assets to make that intergenerational idea of tangible benefit now. So that's the sort of things we're talking about.

Andrew Croft
CEO & Director

Iain, do you want to talk about the Next Generation Academy as well, which I think is probably an important part.

Iain Rayner
Joint Chief Operating Officer & Member of Executive Board Committee

Yes, I fully agree with everything David said. And I do see it's about demographics and financial movements of massive amounts of money through generations is a big opportunity for us through being an adviser in that market. The Next Generation Academy, a different word, is going back to our Academy and people development, is a lot of our partner businesses are very keen to grow their own support services and advisers and we've got a Next Generation Academy that brings family members or people they want us to train on their behalf who take a place within that small business, either to go on a journey of administrator, paraplanner, eventual adviser or to go straight in as an adviser and that's been very successful for us, helping us to support and build the infrastructure in those businesses, which actually has, to go back to the question right at the beginning, had the -- one of the impacts and one of the drivers on increased productivity in the businesses.

Andrew Croft
CEO & Director

So I think there's a question from Ben there.

Benjamin Edward Bathurst
Societe Generale Cross Asset Research

It's Ben Bathurst from Soc Gen. I've got another question on capital, I'm afraid. In the commentary this morning on the solvency buffer, I think you've been quite clear about holding capital on the Life company to match the MSB. But I don't think you've been quite so clear about the -- sort of the other third column in direct. So I was just wondering what you think about the appropriate level of surplus there and also whether or not you'd to be happy to see the number that you've got in terms of overall group coverage of about 240% continuing to kind of go up?

Craig Gordon Gentle
CFO & Director

Yes, please, please. Yes, yes, yes. I haven't got the [indiscernible] in front of me, but if the column that you're looking at is headed by other, other covers a multitude of things, including unregulated activities within the group. So that's essentially capital held in the entire balance sheet of the group. And for example, in many instances, it won't even include the deduction for payment of final dividends. So I wouldn't interpret that figure in the same way that you would interpret a column for a regulated entity. But to pick up all of the other regulated entities, we go through a constant monitoring process and an annual reassessment process. And all I can really say is that we're comfortable with the level of capital that we hold. The remainder of the capital within the group is, as is ever the case and has always been the case, tied up in other group activities in the business of running the group of our size.

Andrew Croft
CEO & Director

What I used to always say with my old hat on is we won't hold on to capital unnecessarily. I think there's a few more questions down this side. Neil, by the [indiscernible].

Neil Thomas Welch
Macquarie Research

So question, firstly, on European embedded value. Operating variances, I understand, are starting to come through as a result of client staying with you longer in terms of drawdown. I'd be interested to know how you are starting to reflect that through the embedded value? And is that done? Or is that something we can see refresh? Secondly, I wonder whether you could give us an update as to where you are with Rowan Dartington and that project to bring a private office across the whole of the partnership? And thirdly, just for clarity, you generated 7% growth in adviser this year and I may be forgetting, but I thought 3% to 6% was the broad range that we're pointing towards. Be interested to know where you are in that range and what actually are the particular factors, particularly in the context that MiFID II regulation may affect the adviser sector. Is that creating an opportunity? Or is 3% to 6% a really good guide for us?

Andrew Croft
CEO & Director

I'm going to go with 3% to 6% very quickly because I see Peter Edwards at the back there who's responsible for this smiling. 6% to 8% growth in advisers.

Neil Thomas Welch
Macquarie Research

Well, done on the 7% then.

Andrew Croft
CEO & Director

Craig, do you want to do the EEV and then I'll...

Craig Gordon Gentle
CFO & Director

Yes, as I mentioned in my talk, when we produce an EEV statement, we follow a set of criteria and rules and those rules are driven by contractual boundaries. Now the new retirement account has a different design to it than the old pensions accounts that we have on the system. And therefore, on the EEV, in order to make sure we're consistent because I think that's the value at an embedded value approach, we've applied the same rule set that we always would have applied and that involves taking account of the entire contract length, which clearly means, as you suggest, there's a longer period for embedded value to emerge at the points at which it's originated. I mentioned the GBP 400 million and I also mentioned that there are currently no plans to change contractual terms. And whilst contractual terms remain unchanged, we have no plans to bring that GBP 400 million into embedded value. But it does become a relevant figure having introduced the new retirement account because it shows that there's value out there, but it's just not appropriate under the rules, and for the sake of consistency, to bring it into the books.

Andrew Croft
CEO & Director

On Rowan Dartington, we're, as I said in my talk, very pleased with how it's going. So we're taking funds under management from just over GBP 1 billion to just over GBP 2 billion and we'd expect to add another GBP 1 billion this year or so. We've also taken the business out of its sort of heartland in the South. So we now have Rowan Dartington investment executives in various cities across the U.K. The number of executives have increased and will increase again this year. So it's a gradual process, a long-term investment, and we need to be patient. We've also got Steve in the audience somewhere from Rowan Dartington, so again, grab him over coffee and he can tell you a bit more.

I think there were 2 questions in front of you.

Gregory Bickley Simpson

Exane BNP Paribas, Research Division

It's Greg Simpson from Exane here. Just 2 questions, the first would be a follow-up on Rowan Dartington, GBP 2 billion -- above GBP 2 billion of FUM guiding to revenue and costs going up next year. Is there a level of FUM that you think is needed to generate a positive cash contribution to the group or timescale to achieve that? And then, secondly, 7% growth in adviser numbers in '17. How much of that came from the Academy? And how do you see over the medium term the mix of, I guess, internal recruitment from the Academy versus external recruitment?

Andrew Croft

CEO & Director

I'll do the RD one and hand over to Iain to that. So RD, as a stand-alone business, if we stopped investing in it and expanding it across the U.K., it would make a positive contribution to the cash result. So what you're seeing now is the investment in increasing the infrastructure in RD. And you will see that from a number of years whilst we continue to do that process. Do you want to do the Academy?

Iain Rayner

Joint Chief Operating Officer & Member of Executive Board Committee

The 7% net growth in manpower, I think, at the moment, the Academy would contribute about 2.5% of the 7%, about 125 Academy graduates in the year. So they make a reasonable -- a very decent contribution to the net growth in manpower. It was part of the reason for the investment all those years ago.

Andrew Croft

CEO & Director

Yes? And then I think Barrie's desperate to ask a question.

Barrie James Cornes

Panmure Gordon (UK) Limited, Research Division

I think my question has been asked. But the other question I had was more just in terms of the foundation, I think you double-matched contribution, it's a small point, but I think it's really worthwhile. It's a fantastic thing you do. Is that likely to continue? Or would you revert back to single-matching?

Andrew Croft

CEO & Director

We will revert back to single-matching. So it was a 25th anniversary initiative.

Barrie James Cornes

Panmure Gordon (UK) Limited, Research Division

And how much did you...

Andrew Croft

CEO & Director

So the staff and community partners, I think we raised about GBP 5.7 million, I haven't got the accurate number, so the double matching was 2 lots of GBP 5.7 million. You know what my math is like. And we would expect it to come back down to the GBP 5 million to GBP 6 million in 2018. Just pass it over to Andrew and I think I saw one over there somewhere and then we're...

Andrew John Crean

Autonomous Research LLP

It's Andrew Crean here, Autonomous. Just a question on the productivity of Academy numbers relative to your overall partnership and to other new recruits, if you've got sort of a time line, presumably they take some time to build

Andrew Croft
CEO & Director

Iain?

Iain Rayner
Joint Chief Operating Officer & Member of Executive Board Committee

Yes, like all new businesses, it takes time to build up the kind of productivity over a 3 -- after about 3 years, 3.5 years. Their average contribution is the same as someone who we would have recruited in the normal way, so they catch up fairly quickly. One of the things that's pleasing is that an increasing number of our Academy graduates, instead of going to build stand-alone businesses, which can be quite lonely and hard work, are finding homes within existing businesses and that's one of the reasons they get to be more productive quicker because they're in an existing business with a mentor, with access to clients and within a kind of framework that increases their ability to be productive earlier.

Andrew Croft
CEO & Director

Yes. So I think one last question, I saw a hand go up a few times in the middle there, so we'll take that. Okay.

Abid Hussain
Crédit Suisse AG, Research Division

It's Abid Hussain from Crédit Suisse. Just one question. Sorry to go back to Bluedoor, I was just wondering how did the cost tariffs differ between the existing system and Bluedoor. And has that already been captured in the EEV? And if I may, sort of how should we think about that in terms of modeling the cash result going forward assuming we sort of roll forward to 2019?

Andrew Croft
CEO & Director

So what I've always -- so we pay somewhere around about GBP 80 million in fees to our outsource provider a year. That might be a year old, that number, so we might have to check that. And I've always said that when we're fully on Bluedoor, we would expect that tariff to come down by double-digit percentages. And that will -- you're not going to see that until we decommissioned the S-A-L-A system, so it'd be sort of latter end of '19, into '20.

Okay, one final question, if I may, from Eamonn and then we'll bring it to a close.

Eamonn Michael Flanagan
Shore Capital Group Ltd., Research Division

Eamonn Flanagan with Shore Capital. It's not a question. I wondered if, on behalf of the sell-side, you could pass on our sincere sympathy and best wishes to the family of Mike Wilson, please. Certainly, at a personal level, Mike was a wonderful man, terrific mentor and a good friend of the sell-side. I think we'll all miss him. Thank you.

Andrew Croft
CEO & Director

Thank you. Thank you very much for that, and we will pass on. We're around for coffees and teas afterward, so please do mingle. I'll say there's a number of the NEDs here and also a number of my executive teams and also Steve from Rowan Dartington. Thank you very much.

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