# St. James's Place 2023 Full Year Results Presentation – 28 February 2023 Transcript

## Mark FitzPatrick, Chief Executive Officer:

Good morning everyone. It's my pleasure to talk you through my first results presentation as CEO of St. James's Place.

We have a full agenda today, which will include how we're dealing with two historical issues. However, I want to keep in sight throughout this presentation how fundamentally sound the underlying performance of this business is. We continue to attract strong net inflows, grow our funds under management, and deliver robust underlying financial performance, despite challenging market conditions.

Digging into those headlines a little more: we're now trusted with a record £168.2bn in client funds. Our Partnership continue to impress – attracting new client investments, amounting to £15.4bn of gross inflows in the year. Meanwhile, our client retention rates have stayed strong at 95.3%, which speaks volumes about our relationships with clients and their confidence in our expert advice. Together, these resulted in net inflows of £5.1bn.

With the strength of our investment performance driving gains of £14.7bn, our funds under management have grown by almost £20 billion in 2023. To put that into context, after this business was founded in 1991, it took 18 years for funds under management to reach £20 billion, and we've grown by that amount in just one year. This really highlights the journey SJP has been on and the scale we have today.

In terms of underlying financial performance, our business has been robust despite difficult market conditions and regulatory change. It's clear that our reported Cash result of £68.7 million has been significantly impacted by the provision we've established for potential client refunds which is linked to the historic evidencing and delivery of ongoing servicing. I will cover this point in more detail later on. However, before moving on, it is important to note that the introduction of Salesforce provides us with robust evidence of ongoing servicing since its implementation in 2021.

Whilst our results have been impacted by this legacy matter, the Board recognises the importance of return to shareholders and has therefore proposed a final dividend of 8 pence per share. The Board has also decided to revise future dividend guidance and Craig will touch on this shortly.

Now, for the rest of my presentation, I want to focus on three key areas. Firstly, my initial observations since joining SJP. Secondly, I'll talk about the two challenges we're addressing. And finally, thirdly, I'll look ahead and explain my priorities for the business. This final part I'll cover after Craig has taken you through the financials in more detail.

When I joined SJP last year, I knew I had to get under the skin of the business. So, I started my listening and learning tour within the first week. This highlighted some interesting observations for me.

Things such as the sheer size of the structural opportunity for financial advice in the UK marketplace today and its capacity to develop and grow over time. One simple way to look at it is through the number of people in today's mass affluent demographic. This stands at 13.5 million individuals who control approximately £2.7 trillion in liquid assets. This segment is forecast to grow to 14.3 million people, controlling more than £3 trillion of liquid assets by 2026, and we have around a million clients and manage funds of £168.2 billion on their behalf.

So the opportunity here is undeniable. So I believe we're operating in a market that has structural growth opportunities and where society is becoming more aware of the benefits and necessity of long-term investing.

In terms of scale, SJP is a much bigger business than many people realise – with more than 4,800 financial advisers operating in almost 2,700 Partner businesses. We have a huge market presence and the pace of growth has been really impressive, more than doubling the number of clients over the last 10 years.

Our community of advisers and Partners has an average age which is ten years younger than the industry, showing that we're building advice capability for future generations and providing a great pool of talent amongst our profession.

Ultimately, SJP is the best place for our clients, for Partner businesses to grow, and for great careers to thrive. And we're confident that our growth will continue because we have several advantages that we work hard to sustain.

We have a proven track record of retaining and growing the Partnership. The SJP Academy has brought in more than 1,300 Partners and advisers since it began. We have a market-leading succession support scheme that we call 'BSP', or business sale and purchase, which means longevity and continuity of advice for clients by ensuring we have succession planned in. And this scheme continues to work well for clients and the Partnership.

These things really set us apart from the competition.

Most importantly, we are all committed to delivering great client outcomes that foster long-term client retention, advocacy and new business.

Another compelling aspect of our business I've been getting to know better is our investment proposition. This has, at times, faced some external criticism around performance. Over the last 12 months, we've seen strong performance across all 12 of our portfolios, and our newest range, Polaris, has been particularly impressive, delivering returns that outpace benchmarks by between 2.5% and 4.5%. This contributed to Polaris being the fastest-growing multi-asset fund range in UK financial services, and unsurprisingly it's been hugely popular with clients, attracting £25bn in just over one year.

We're also looking to expand our product range into the low-cost passive investing space. This will ensure we continue to have a real breadth to our investment proposition, providing more choice for clients.

So, taking a step back, what I see is a fundamentally strong and growing business with a great distribution and asset gathering capability, and an attractive investment proposition that helps deliver good outcomes for our clients.

In what's been a challenging year for the industry, SJP is a business that has shown its resilience, both through inflows and in its underlying financial performance.

So on to my second key topic for today, which pertains to two challenges we're already addressing.

The first is the restructuring of our charges we announced last year. The second relates to the historic evidencing and delivery of ongoing servicing, for which we've created the provision I mentioned earlier.

Let's start with the charges structure, which has too often been seen as complex and has therefore been open for external commentators to challenge. In October we announced the structural changes of unbundling our charges to ensure sustainability for the long-term. This gives us confidence that we can grow the business without the need for any further changes to charges that would impact the

guidance that was communicated to the market in October. These developments will be good for clients, appropriate for our marketplace and are designed for a Consumer Duty world. By extension, they will be good for our long-term business health and give us the opportunity to consider new propositions and also give us real agility in how we grow the business.

Turning now to the second key challenge we're addressing, linked to the historic evidencing and delivery of ongoing servicing. Throughout late 2023 and early 2024 we saw a significant increase in the number of complaints largely relating to whether clients had received ongoing servicing historically. Given the scale of complaints we needed to explore this issue by assessing client experience.

The crux of the matter is that the completeness of our evidence around ongoing service being delivered is particularly challenging for those years before we implemented Salesforce as our CRM. In some instances the frequency of services being delivered was below what clients should have received. This means that we may need to provide refunds for clients where we cannot find evidence that ongoing servicing has been provided. This is clearly a disappointing outcome for everyone.

So, to wrap up this section, we are dealing decisively with these two key historic challenges.

We're moving away from a fee structure open to criticism and moving to one that puts simplicity and comparability at its core; future-proofing our model.

We've identified shortcomings in the evidence of ongoing servicing in the past and are dealing with this. The implementation of Salesforce in 2021 now provides evidence of ongoing servicing, giving us confidence for the future. At this point I'll hand over to Craig to give you a deeper insight into our financials before I come back to talk about my focus on future priorities. Thank you.

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### Craig Gentle, Chief Financial Officer:

Thanks Mark, and morning everyone.

As Mark mentioned, the underlying business has performed well, but it's clear that some important developments have impacted on the financial results for the year, so I'll begin by providing some colour around these.

Firstly, as Mark has said, we made important announcements in 2023 related to our charging structures, ensuring both compliance with an evolving regulatory environment, and a sustainable charging platform that will see the business thrive over the long-term.

In July, we announced the introduction of a fee cap on long term bond and pension investments which came into effect in August. The impact of this in the second half of the year was to reduce net income from funds under management by some £12 million.

Later in the year, we announced that we would be simplifying our charging structure to provide comparability across the marketplace and enable a clearer articulation of the value that we provide to clients across all elements of our proposition.

As we explained back in October, this new charging structure will impact the shape of our financial results over time. We provided guidance on how our net income margin range would be affected and we do not expect any future changes which will require revision to this guidance.

Investment in systems and processes will be required to deliver these changes. Much of the cost to change will fall in 24 and 25, but we have started work and the post tax cost in 23 was £7.2 million, which is in line with guidance.

These changes will result in a series of timing differences that will impact negatively in the short term

but positively in the longer term. Importantly though, they will result in long-term simplicity and comparability, which can only strengthen our proposition, our brand and our reputation.

During the first half of 23 we began to experience elevated levels of complaints in connection with claims that ongoing servicing had been charged for, but not delivered. These complaints accelerated towards the end of the year, and our experience was that producing sufficient evidence of delivery was challenging, particularly for the period preceding the roll out of Salesforce in 2021. This resulted in a large volume of upheld complaints followed by refunds for charges, which contributed significantly to the complaints cost within Miscellaneous expenses.

Given the volume of complaints received, together with the higher uphold rate, a skilled person was appointed to perform an assessment of the extent to which issues raised by complaints are replicated across the wider client base. Based on the results of this assessment, the Board yesterday agreed a programme to address those cases where evidence of delivery falls below an acceptable standard. The period of the review will be from the start of 2018 and this is based on an assessment of the regulatory regime in place during this period, together with the requirement to retain evidence of delivery for this period of time.

Having made this decision, we’ve booked a provision of £426 million gross of tax which amounts to £324 million net of tax in the Cash result. This charge is our best estimate of the total cost and it includes an estimated refund of historic ongoing servicing charges together with interest and the administrative costs associated with completing the work.

It’s clear that addressing the financial risk of a lack of evidence of delivery has had a material effect on the results, but it is important to note that this is a historic issue and one which we have addressed for the future using the CRM capabilities within Salesforce. Indeed, the assessment itself shows us that servicing records improve markedly from 2021 onwards when Salesforce was introduced. To the extent, that for 2023, we were able to ensure that we have evidence that all clients have received the ongoing service that they have paid for. As part of this exercise, we were able to isolate those instances where, for whatever reason, there was no evidence of delivery, and pro-actively trigger refund activity. Contextually, these instances represented approximately 2% of clients and 1% of funds under management. This is a process that has been operationalised for 2023 onwards and the cost of the refund for the year was largely offset against ongoing remuneration paid to advisers. The challenge we have is looking backwards where the evidence is not as strong.

We have more than sufficient funding capacity to be able to deal with the financial impact of the decision we’ve made. You will appreciate that in a regulated environment it’s important to have the necessary capital, backed up with appropriate liquidity all in place at the point at which a provision like this is booked and that’s what we have done. We are confident that the provision we’ve booked is sufficient and we have also arranged access to an additional £250 million of credit which we do not anticipate utilising, but which provides additional contingency funding capacity.

As Mark has said, this matter is disappointing for everyone and we are committed to putting things right, which is what we will do. From a financial perspective we have the strength to do so and a financial business model that remains in good shape which is a good point at which to move on to our underlying performance.

Before I get into the detail I’ll comment on the Underlying cash result, which is broadly flat year on year on a pre-tax basis, and 4% lower post-tax due to the increased rate of corporation tax. Given the challenging backdrop for our industry during the year, this is a strong outcome that highlights the fundamental resilience of our business model.

Moving on to the key components of Underlying cash, I’ll start with the all-important net income from funds under management.

As a reminder, this line represents the net annual management charges retained by the Group after the payment of all the directly associated costs. For example, the advice fees paid to Partners, investment management fees paid to external fund managers and the policy servicing tariff paid to our third-party administration provider.

Total post tax net income has reduced modestly year on year, but on a gross of tax basis it grew by 4%, which reflects the increase in average 'mature' funds and includes a contribution of over £40m of income from gestation balances that matured during the period. This was partially offset by the impact of the fee cap that we introduced on long-term bond and pension investments during the second half.

The margin for the second half was within the 55 to 57 basis points guidance that we gave back in July. As we have previously guided, this margin range will reduce by a further basis point in 24, to a range from 54 to 56 basis points, purely as a result of the effective rate of 25% applying for the whole year.

Encouragingly, the combined impact of net inflows and strong investment performance during the year has resulted in funds under management increasing by 13% to close the year at a record £168.2 billion. This sets us up well for future growth in net income in 2024.

What also sets us up well for growth in income is the profile of gestation FUM that we see maturing every year. Let me explain this for those less familiar.

Under our existing charging structure, new life and pensions business does not generate annual product management charges for the first six years of its existence, but it does thereafter. This stock of funds under management that is within this initial 'non-fee earning' window is what we call gestation, and we can see how this stock becomes revenue-earning over time, therefore providing us with strong visibility of future growth in income.

For illustrative purposes, our current stock of funds in gestation stands at £47.6 billion, and could, in due course, contribute around £270 million a year in recurring income to the Cash result – free, of course, of any additional cost.

For 24, we will see around £7 billion of FUM emerging from gestation and beginning to contribute somewhere in the region of £50 million to the Cash result for the first time.

Under the new charging structure, from the middle of 2025 there will be no gestation period for new business. Therefore, from that point, the Cash result will see the twin benefit of new business contributing fee income from day 1 and the benefit of existing funds in gestation beginning to mature over time.

I'll now move on to the margin arising on new business. As a reminder, this line represents the initial charges on new business retained after payment of directly associated costs – these are predominantly the initial advice fees paid to Partners and the incremental third-party administration costs. The total margin arising during the year was £104.5 million, representing a 15% reduction compared to the same period in 22. The key drivers for this reduction are the lower new business volumes and the change in tax rate.

Controllable expenses of £283 million net of tax are up 2%, which aligns with our guidance of 8% on a pre-tax basis. The sharp rise in inflation that we have seen in recent years has begun to moderate, and we are budgeting to contain the growth in pre-tax controllable expenses in 24 to no more than 5% for the year. Allowing for the corporation tax applicable in 24, this is equivalent to 3% net of tax.

Our business in Asia has experienced the same market and economic challenges that we have seen elsewhere. The increase in net investment of £19.4m largely reflects some restructuring that we described last year which has included the closure of our office in Shanghai, some Partnership

rationalisation and the establishment of a presence in Dubai.

Given the challenging operating environment, and the impact this has had on accumulated flows, we now expect Asia to breakeven in 2027 which is two years later than planned. We anticipate total net costs in 2024 of approximately £11 million.

Our DFM business has delivered a result slightly ahead of guidance, with the total investment reducing to £6.4m.

We are entering the final stages of the back-office rebuild, which is charged to profit as the expense is incurred. As a result, we expect DFM to experience a reduction in costs in 24 and to perform somewhere in line with breakeven for the year.

Our FSCS levy and regulatory fees expense of £23 million for the period was more than 40% lower year on year. As we've reported already though, this is a one off reduction and at this point, we believe that the FSCS costs for the coming year will increase by around 50%, while other regulatory costs will remain broadly stable.

We continue to earn shareholder interest on invested elements of working capital at a rate closely linked to the Bank of England base rate. The low interest rate environment over the past 10 years has meant only a modest contribution to the Cash result, but for 2023 as the base rate increased to its current level of 5.25% you can see that it's been a significant contributor.

For the purposes of modelling for 24, if the current base rate were to hold for the whole year, we estimate that shareholder interest could be somewhere in the region of £60-70 million but you will need to flex this number for your own view of average interest rates over the period.

And just as a reminder, this income is not client related, it's income on shareholder assets only.

Miscellaneous costs have increased to £35.8 million and the biggest single component of this was the elevated complaints experience that led to the Boards provision decision that I've already covered. In normal years the costs of complaints typically net off against internal Partner PI contributions but for 2023 this wasn't the case.

Taking all of this into account, the underlying outcome for 2024 was a strong one but inevitably somewhat overshadowed by the exceptional provision that we've established to deal with historic issues.

I'll now turn briefly to Embedded Value, this for the less familiar is a basis of reporting that gives a measure of the total value that might be expected to arise over the lifetime of the existing in-force business, without making any allowance for new business that may be written in the future.

The key figure here is the EEV NAV per share, which now stands at £14.11. This year-on-year reduction reflects the impacts of changes to the charges that we communicated last year, as well as the impact of the ongoing service evidence provision that we have announced today.

Moving on to solvency, the ratio for our life companies stood at 162% at the end of the year.

This ratio has increased markedly as a result of both future changes in the charging structure together with a change introduced as part of a wider package of solvency II reform which reduces the risk margin that we are required to hold.

In the past and based on our current charge structure, we have targeted 110% of the standard formula within our capital management approach. Our future charge structure will re-direct income from the Life Companies into other parts of the group and while we will continue to apply the same risk modelling, the reduction in Life Company VIF has resulted in a change from 110% to 130%. The effect of all of this is to reduce further the capital constraint in our Life Companies, this has enabled us to use surplus liquidity of some £190m, to in part, fund the exceptional provision that I've already covered.

Finally, I'll comment on the dividend.

Our financial results have been significantly impacted by the ongoing service evidence provision, but the Board recognises the importance of return to shareholders and is confident that sufficient capital and liquidity is available to deal with this legacy matter. In light of this, the Board proposes a final dividend of 8.00 pence per share to take the total dividend to 23.83 pence per share for the full year.

Looking forwards, a combination of the creation of the new provision and an expected decrease in the level of profit retention in the business over the next few years, as we transition to our new charging structure, reduce resources available to invest in long term growth in the business. Accordingly, the Board has decided to revise our approach to shareholder distributions. Going forward, the Board expects that total annual distributions will be set at 50% of the full year Underlying cash result. And, for the next three years will comprise 18.00 pence per share in annual dividends declared with the balance distributed through share repurchases.

Once our new charging structure is fully embedded, we anticipate that the earnings trajectory will improve during 2027 and beyond. The Board expects that distributing 50% of the Underlying cash result will continue to strike the right balance between investment for growth and returns to shareholders, while seeing shareholder distributions increase over time. The upward trajectory in profits should then provide the Board with options to grow the dividend element within the total return.

So all in all, a strong underlying performance for the business, which is inevitably overshadowed by an exceptional cost of addressing a historic issue, but which demonstrates a core resilience that bodes well for the longer term.

For your convenience, the slide on the screen provides a single summary of all of the guidance that I have provided which should enable you to estimate our financial results for 24 and update those estimates as market performance evolves over the year. Now back to Mark.

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### Mark FitzPatrick, Chief Executive Officer:

Thank you for that, Craig. Amongst everything that Craig has covered off, it is important to note that fundamentally our underlying financial performance is robust. With the external environment likely to remain challenging in the near term, it's important that we continue to deliver on the core basics of running a great advice business. This means all of us in the SJP community doing what we can to help clients achieve good outcomes. It means creating an environment and culture that encourages and promotes excellence. And it means continually adapting and improving so that we build on our market leadership.

So beyond dealing with the historic challenges I set out earlier, my 2024 priorities include setting a path for continued growth and success to 2030 and beyond which will be supported by a business review. We will start telling our story to the market rather than having this written for us. At our Annual Company Meeting in January, we set out how we'll have a louder voice in the market to help shape and grow our vital profession.

Finally, I commit to keep learning and broadening my understanding of the business, the broader advice profession, our clients, our Partners and exploring how we can make the SJP community even stronger together.

So, to briefly touch on our business review - the work has just begun, we are just a few weeks in.

I've brought in a leading consulting firm to support us in developing this – bringing in fresh ideas, thoughts and challenge. They'll help us identify, build, and tone the muscles to prepare for the future and ensure we continue to lead and evolve, plotting a sustained path for growth, focussing on good cost management and creating leverage through our scale and operational capacity.

We're working at pace to deliver this review and I look forward to updating you on progress with our half year results.

So, to summarise my presentation today, we have a number of key strengths that give us a real competitive advantage, and these continue to position us strongly to capture the significant market opportunities ahead. While we've faced some challenges in 2023 and into early 2024, we are dealing with them. We will not shy away from making difficult decisions.

And we continue to explore how we develop SJP for the future.

Thank you.