St. James's Place 2022 FY results presentation – 28 February 2023
Transcript

Andrew Croft, Chief Executive Officer:

Good morning and welcome to our full year results presentation.

2022 was undoubtedly another extraordinary year. After a positive start, macroeconomic and geopolitical conditions across the globe quickly deteriorated and indeed deepened as the year progressed. We had to contend with high inflation, rising interest rates and the conflict in Ukraine, which combined to create a challenging backdrop. And in the UK this was compounded by political uncertainty.

Despite the challenging environment, 2022 marked the second-best year for new business flows in St. James's Place's history. I will recap on these flows, then hand over to Craig to cover the record financials before returning to provide an update on our progress during the year.

So, turning to flows.

Our figures frank the strength of the business model and highlight the fantastic job our advisers do to help clients create the futures they want.

During the year, our advisers attracted £17 billion of new client investments, making 2022 our second-best year for new business. There are a number of reasons why we've been able to achieve this despite the difficult backdrop, but by far the most important of these is our fully advised business model. The Partnership has always focused on helping clients achieve their long-term financial goals by making long-term financial plans, and long-term investments.

Even though the environment deteriorated as the year progressed and challenges for savers compounded, our new business held up well.

Our advisers have worked hard to help clients understand the current environment and the importance of remaining focused on their long-term financial goals despite short-term pressures from high inflation and the cost-of-living crisis. This has ensured retention rates for client investments have remained very high at above 96%, contributing to net inflows of £9.8 billion. This is equivalent to 6.4% of opening funds under management.

The support and advice we deliver creates real value for clients, which is referenced in research from the likes of Vanguard, Morningstar and the International Longevity Centre. This advice helps clients to feel confident in their futures.

The stability of our net flows contributed to funds under management closing the year at £148.4 billion.

So, taking a step back, how are we faring against the 2025 business plan flow assumptions we first set out two years ago?

Well on a cumulative basis we're ahead of where we might have expected to be at this stage of our journey. We've built on an exceptional 2021 with another strong flow outcome in 2022. We've always said that progress will not be linear, but we remain confident in our business and committed to our plan.

As for funds under management, our goal remains £200 billion. We know that markets can give and markets can take and last year they presented a stiff headwind, but they're off to a good start in 2023.

So, 2022 was another good year for flows for SJP, a testament to the Partnership, our people and the fundamental strength of our business model.

Let me hand over to Craig to run through the financial results. I will then come back to cover our other 2025 business priorities.

Craig Gentle, Chief Financial Officer:

Thanks, Andrew, and good morning everyone.

As Andrew said, I'm going to run through some of the key results for 2022 and in so doing, I'll look at the Cash Result, Embedded Value, IFRS and Solvency.

First the Cash Result, and I'll start by commenting on the "all-important" Net Income from Funds Under Management, which grew by 5% compared to 2021. Given the shape of the markets during the year this may seem counter-intuitive, but it reflects a growth in average 'Mature' Funds and includes in excess of £40m from maturing gestation balances which contributed to the result for the first time.

The margin on net income from FUM remains within the 63 - 65bps guidance that we have given previously. As this is a post-tax margin it'll be impacted by the increase in the main rate of corporation tax from 19% to 25% on 1 April this year. This means the margin will move to a range of 59 – 61bps for 2023. Many of you have already factored this into your models, but for the avoidance of doubt, this change is solely tax related and of course a further, more modest impact will be seen in 2024 when there will be a full year effect.

Funds in gestation awaiting maturity at the end of the year stood at £45.5 billion. As Andrew has already commented, retention remains strong but this is of course a number that moves with market values. For illustrative purposes, if the full gestation balance was mature today, it would be contributing over £380 million a year to the Cash Result, free of course of any additional cost. This is a very significant store of value for shareholders with a highly visible future emergences of cash.

Our margin arising on new business for the year was £122.4 million. This is a 16% reduction compared to 2021. There are two main factors at work here. Firstly, the reduction in gross inflows year on year; and secondly, the higher allowances based on productivity for 2021 which was exceptionally high.

Controllable expenses of £277.9 million for the year are up 5%, in line with plan and guidance.

It's critical that we balance the need to manage our controllable expenses in a disciplined way, with a need to invest in the business to support long term growth. This includes making sure we continue to invest in technology in order to capitalise on the material transformations that we have already completed, and retain the talent that we have in the business. In view of this, we expect to contain growth in controllable expenses in 2023 to no more than 8% on a pre-tax basis. On a post-tax basis this translates to around 2%, the equivalent of around £6m in the controllable expenses line in the cash result for your models.

You'll recall that around half of our controllable expense base relates to people, so professional wage inflation is the biggest single factor in our planning for 2023, but inflation of course impacts on many other expenses too.

You will also recall that if you stand back, well over two thirds of our total expense base varies in line with business volumes or with equal and opposite income. This will continue to be the case. Furthermore beyond 2023 we remain committed to our target to contain growth in controllable expenses to no more than 5%, but we will need to see how inflation develops as the year progresses.

Our business in Asia has experienced the same market and economic challenges over the past year that we have seen elsewhere, and it's taken longer to pull out of pandemic restrictions, particularly so in Hong Kong. Consequently, although we are slightly behind our Cash result target for 2022, we are naturally further behind on the value of our funds under management. In order to ensure a continued positive trajectory, we have taken some decisive action in our Asia cost base to position for the future. As a result, there will be some restructuring costs for Asia in 2023, that means that we expect total net investment to be around £14 million.

Following this action, we continue to expect our Asia business to break even in the Cash result in 2025, and we continue to see this as a great strategic asset in a very exciting part of the world.

Our DFM business has delivered a result in line with guidance, and it remains on track to break even in the Cash result in 2024. As a reminder, DFM will experience a sharp reduction in costs in late 23 and 24 when we will have completed the DFM back-office re-build which is being charged to profit as the expense is incurred. For 2023 we expect net investment of around £8 million.

Turning next to the FSCS levy and regulatory fees, our expense of £40 million for the year was 6% up on 2021. Within this, our FSCS charge fell modestly to £27.3 million, driven by reduced industry levy costs for the year but offset by an increase in our market share. This means we take a greater share of a reduced pool.

The FSCS have announced that industry levy rates will fall again for 2023, across the classes where we contribute. Our cost will of course depend on our market share, but we estimate the charge for 2023 could be in the region of £15 million. This is clearly positive for 2023, but is likely to revert back to previous levels in the future since the reduction is a function of accumulated reserves being used rather than a reduction in cases needing compensation.

We've always earned Shareholder interest on investable cash components of working capital, predominantly held within the life companies. These are not client related balances but part of working capital, regulatory capital and of course shareholder funds. The reality is though that the very low interest rate environment in recent years has meant this has contributed minimal amounts to the

Cash result. The increase in the Base Rate from a quarter of a percent at the start of 2022 to 3.5% at the end of December means shareholder interest is far more significant in 2022, contributing £15.9 million.

For modelling purposes, if the current base rate of 4% were to hold for the rest of the year, we estimate that shareholder interest could land in the region of £40 - £50 million. If you step back from the financial dynamics of the business this serves as a helpful in year foil against inflationary pressure in the cost base.

Tax relief from Capital Losses was £20.7 million for the year, significantly ahead of where we expected them to be and some £6 million higher than consensus. It's largely a positive consequence of the market conditions that have impacted negatively elsewhere in our Cash result. The high level of utilisation in 2022 means the remaining stock of tax relief from capital losses stands at £2.1 million. We expect to use this remaining stock in full in 2023, after which point it will no longer be a factor in the Cash result.

In line with guidance, miscellaneous charges are some £4m higher than 2021. There has been an excellent post COVID resumption of fundraising activity across our community for the SJP Charitable Foundation, which as usual the business has matched. As I flagged at the half year we have also seen the impact of having to reflect mark to market reductions in certain assets held on our balance sheet, the value of which move with markets.

Taking all of these items into account, our Underlying cash result for the year was £410.1 million, which is 2% up on last year. With nothing below the line in 2022, the overall Cash result was also £410.1 million, up 6%. This is a record financial performance delivered in a very challenging operating environment.

I'll now turn to Embedded Value where there are a number of items that are worth commenting on.

Firstly, the unwind of the discount rate is up 60% at just over £440 million, driven by the increase in interest rates that we've seen.

Secondly, as I mentioned at the half year, following a number of years of very strong retention for unit trusts and ISAs, we were required to book an operating assumption change which is included in the £210 million positive change that you can see. Clearly these longer periods of investment are very positive for the business.

The investment variance of £1.3 billion is driven by market movements and it's a feature we are used to seeing in EEV when the markets fall. Indeed, we experience the reverse when markets strengthen again.

Finally, the economic assumption changes of £235.1 million in 2022 are larger than we are used to seeing, but this is due to the significant increase in long-term interest rates during the year.

Together these factors have driven an EEV profit after tax of £371.4 million. The EEV NAV per share at the end of the year was £16.66.

I'll comment briefly on IFRS but only really to note that the change in the IFRS profit before tax is almost entirely attributable to policyholder tax movements which don't necessarily reflect the economic interests of shareholders. IFRS profit after tax, however, is higher due to the increased Cash result together with other positive IFRS timing differences.

Moving on to solvency there is no underlying change in our approach, which remains prudent and sustainable for our business model. At the end of the year our Solvency ratio for our Life companies stood at 130%, which is materially ahead of our approach of holding 110% of the standard formula. This is largely attributable to the mechanics of the equity dampener and other positive IFRS timing differences which in our capital planning we assume will reverse over time.

Finally, I'll comment on the dividend. The Board has proposed a final dividend of 37.19 pence per share, bringing the full-year dividend to 52.78 pence per share. This is in line with our guidance and reflects a pay-out ratio of 70% of our Underlying cash result.

Well, that's it for the financials. You can see a summary of the guidance I've given during this presentation on the slide. We're pleased to have posted record results across our key metrics despite challenging conditions.

Now back over to Andrew.

Andrew Croft, Chief Executive Officer:

Thank you, Craig. These record financial results in a tough year, clearly demonstrate the fundamental strength of our business model.

For the final part of today's presentation, I want to spend some time talking about the operational and strategic progress we made last year, as well as about the Power of Partnership and why this makes me more confident than ever in the prospects for our business in the years ahead.

By now you will be familiar with the six business priorities that underpin our 2025 ambitions so I'll start by providing an update on these, except for continued financial strength which Craig has just covered.

Let's start with Building Community.

A thriving SJP community is critical to supporting great outcomes for more and more clients, so we're delighted to have welcomed a net 137 advisers into the Partnership, some as experienced financial advisers and others who are new having completed our Academy programme during the year. And the Academy has helped us to attract a broader range of clients to SJP, a point I'll come back to shortly.

Beyond growing the Partnership, which remains key to our ongoing success, having a thriving community within the Partnership is also about ensuring we're using our scale and capability to help advisers better achieve their own ambitions.

We've made increasing use of technology to build on-demand content and innovative learning modules that complement more traditional training methods.

This is additional to a whole support suite for Partner businesses and advisers at various stages of their development, from those in our growth and development cohorts who have identified areas

where they would like to improve, through to those who seek bespoke consultancy to help their businesses go from strength to strength.

We want SJP to remain the best place to be a financial adviser and we feel this focus on delivering great support and development is another factor that sets us apart.

Being easier to do business with, is a programme of work that will help us optimise and streamline what we do and how we do it. In 2022, we made further progress on the technology journey that underpins much of this.

Having rolled out Salesforce across the Partnership in 2021, our focus in 2022 was on enabling every Practice to fully embrace it. We are excited by the potential of Salesforce and look forward to the full benefits being realised over the next few years as we increase utilisation and further enhance functionality.

Much like Bluedoor, Salesforce is a broad enabler across the business. One specific example is our new client app, which launched in the year and enables clients to see the value of their investments in real time and have easy and secure access to their information. The app is built using the Salesforce platform, which means that over time we'll be able to upgrade its features so that clients can better engage with their advisers.

Next, delivering value through the investment proposition. 2022 was another important year for our investment team as they continued to evolve our proposition to ensure our advisers continue to have the tools to help drive great client outcomes for the long-term. The launch of our Polaris range of unitised fund-of-funds for clients in the accumulation phase of saving is a good example. This range of four diversified portfolios is simple for clients to understand, and they benefit from automatic daily rebalancing, making it easier for them and their advisers to maintain target asset allocations over time. This range neatly complements the unitised InRetirement decumulation funds we launched in 2020.

Our focus on delivering value extends to the work we are undertaking as part of the FCA's Consumer Duty, which comes into effect at the end of July. This is a significant step forward for our industry, raising the bar to ensure businesses deliver good outcomes for clients, so we naturally welcome the reform.

There's a clear crossover in how we manage £150 billion of client assets and how we can create positive impact as a leading responsible business.

Climate change is one such area and as a signatory to the Net Zero Asset Owners Alliance we set an interim target to achieve a 25% reduction in the carbon intensity of our funds under management by 2025. I'm pleased to report that we've already exceeded this target but our work doesn't stop there. We'll continue to work with all our fund managers to ensure we make further progress in the years ahead.

Another key element in being a leading responsible business, is having a positive impact on the communities in which we operate, both here in the UK and overseas. It's why I'm proud of the generosity and commitment of our community to the SJP Charitable Foundation. In a recent Association of Charitable Foundations report our Foundation was ranked as the third largest corporate foundation in the UK today, measured by giving. I'm also proud that our employees have collectively given up more than 10,000 hours for voluntary community causes over the past year. I

want to thank my colleagues, SJP advisers and our Partner support staff for their incredible efforts here.

We took a significant step forward with Building and protecting our brand and reputation in 2022 with the roll-out of our refreshed brand identity.

We're delighted to have received very positive feedback from clients, advisers, and other stakeholders and we're confident this will drive better awareness, recognition, and trust over time.

Especially as we start from a good place, with strong client satisfaction scores and external validation in the form of industry awards, with some highlights shown here.

So a year of further progress in our business and strategic priorities, but how do we see the future?

To my mind, the opportunity for us is as great if not greater than it has even been. Let me remind you why.

There are more and more people in the UK with investable wealth in our core target market – some 13.1 million people with more than £2.6 trillion of liquid assets

But with tax, savings, and the world of investment all difficult subjects to master, too few have the confidence, knowledge or time to make the best financial decisions for themselves and their families

This matters today because individuals are increasingly having to take financial responsibility for their retirement as the days of relying on a defined benefit pension scheme or the state pension are fast disappearing

This is all happening at a time when the savings gap is enormous and set to rise further.

And of course it's happening at a time when the transfer of wealth from one generation to the next is becoming more meaningful, but no less complex and no less consequential when it comes to efficient estate planning.

So we know there is a real opportunity to help more people have financial confidence for the future, but why am I so confident that SJP is best positioned for this?

It's the Power of Partnership.

Since our business was established back in 1992, we've always believed in working in Partnership with our own advisers. This makes sure we're aligned in striving to achieve great outcomes for clients; that we harness the best of our collective capabilities; and that we strengthen our ability to adapt to the evolving landscape.

This is what makes SJP so different.

As we look to the future, we know that the landscape for financial advice is already changing.

There was a time when face-to-face advice meant engaging with your clients almost exclusively through in person meetings to discuss all matters relating to the client's financial affairs, and that

would be complemented by hard copy correspondence and statements to update clients on their financial position and investment performance.

Today, we still have many clients who prefer this, so we'll continue to make sure they have a great experience if this is what they want. However, clients are increasingly accessing and making use of technology so we must continue to embrace this to support and enhance engagement between our advisers and their clients. When we do this well, relationships grow stronger. Clients, advisers, and shareholders all benefit. This approach amplifies the Power of Partnership.

Demand for financial advice is evolving too. Going back, there was a perception that financial advice was a service predominantly for wealthy individuals in retirement or those just about to retire.

However, a combination of successive pension reforms, intergenerational wealth transfer, and the complexity of personal tax planning, has meant that more people than ever before need help with making better financial decisions. For some, what they may need is simple guidance but at SJP, we're remaining focused on those people with more complex financial affairs, those with higher levels of investable wealth, and those who recognise that they would benefit from the support of a trusted adviser. There are some 4 million mass affluent people in the UK who have said that they are open to receiving financial advice but for whatever reason are not yet receiving it.

That's our focus and that's unchanged. But we are seeing a change in the client base over time and this continues to evolve.

What's evident, as the chart on the slide shows, is that we're increasingly been able to attract younger clients to SJP. Some of this will be due to our proposition becoming more attractive and more accessible, but a key factor here is that the Partnership itself has evolved over time. Put simply, because we've attracted younger advisers to the Partnership, we've been able to attract younger clients to SJP.

We're focused on long-term value creation so that means we're prepared to support our younger advisers by giving them the tools, skills and expertise they need to thrive as advisers with us. If we get this right, they'll become great advisers that will stay with SJP for the long-term and develop great Partner businesses for the future. This is already happening.

If we go back just ten years to 2013 and look back at those younger advisers who joined the Partnership in that year, we can see the progress they've made. The chart shows average gross inflows per year from this cohort of joiners who were under 30 years old at the time. It shows that these advisers took some time to find their feet in the Partnership as they built their networks, skills and experience, but after around five years or so they were performing in line with their peers in the Partnership. In fact, this group's average productivity has exceeded that of the broader Partnership in recent years. Younger advisers, whether joining through the Academy or not, have no ceiling to what they can achieve while at SJP but of course they need more support at the outset.

The decision to invest in the Academy all those years ago has clearly paid off and today the Partnership includes more than 1,000 advisers who have joined through this route. Today we are training more, we are training better, improving diversity and we are lowering the age of the Partnership.

And in addition to helping to grow the Partnership, the Academy facilitates succession planning, helps improve diversity, build the great Partner businesses of the future, and above all it helps us serve and

support more clients with their financial planning needs. The reason we were confident to make this consistent investment is because we have a long-term mindset and a commitment to the Power of Partnership.

That commitment will continue to sustain our business in the years ahead, allowing us to achieve our ambitions to 2025 and beyond, helping advisers build great businesses, and helping clients have the confidence to create the futures they want.

That’s all about the medium term so what about 2023.

Well, the year has so far continued in much the same way that 2022 ended, but we remain encouraged to see indicators that UK inflation may have peaked, and that there are signs of optimism for the direction of economies and investment markets worldwide. As we indicated in our new business update in January, a sustained recovery in these indicators will be helpful in improving consumer sentiment, activity levels and of course funds under management, as the year unfolds.

I will finish with a summary of the results, which you can see on the current slide.

All in all, a year of robust new business, record financial results, and further progress in our business and strategic priorities.

That’s it, thank you for your attention, as a reminder the live Q&A starts at 09.30.