SJP Simplifies Client Charging Models

17 October 2023

Paul Manduca, Chairman:

Good morning. I am Paul Manduca, Chair of St. James's Place. Welcome to this briefing where Andrew & Craig will describe some important changes to our charging structures. We believe these changes will further strengthen our market leading position in the UK financial advice and wealth management landscape, and deliver long-term benefits for all our stakeholders.

Before I hand over to Andrew and Craig to take you through the detail of the changes and the financial implications, I should like to take this opportunity to pay tribute to Andrew who will shortly be retiring from St. James's Place after 31 successful years with the business. He will, of course, be hugely missed by the entire SJP community and on behalf of us all, I wish him the very best for his forthcoming retirement.

We announced some weeks ago that Mark FitzPatrick will succeed Andrew as Chief executive on the first of December. Mark joined the business at the beginning of this month and is immersed in an extensive handover and transition. Mark fully endorses what we are announcing today and is looking forward to taking the business forward.

Today's changes complete the review of our charging structure that followed from the work performed to address Consumer Duty. That puts us in good shape for the future, and so I'll now hand over to Andrew who will explain why that's the case.

Andrew Croft, Chief Executive Officer:

Thank you, Paul and good morning. Earlier today we announced that we've concluded an evaluation of our charging structures and made the decision to effect changes for the future. I will talk in more detail about what those changes are in due course but to summarise: we're simplifying our bonds and pensions structures, including removing early withdrawal charges or EWCs; we're separating our charges into their component parts; and we're rebalancing our charges across each element of our proposition.

I will also talk in more detail about why we've made these changes, touching on shifting consumer trends and how they've been reflected in an evolving regulatory landscape over time, and I'll talk about why I believe this is really positive for the business, setting us up with a sustainable and competitive charging platform for the long-term that will see SJP thrive.

I'll start though by setting out some background to these changes. We've been in business for over 30 years now, with a model that has delivered strong client outcomes as we've

established ourselves as the leading provider of financial advice in the UK, with £158.6bn of funds under management and retention rates of over 95%.

As we look to the future, we continue to see a fantastic market opportunity ahead. The demand for advice is growing, driven by a very large savings gap in the UK, the persistent complexity of the UK savings, tax and pensions regimes, and of course the challenge of managing and optimising intergenerational wealth transfers. All this at a time when there is already an acknowledged shortfall of qualified financial advisers in the UK creating an advice gap which is expected to widen only further. For an ambitious business with a clear direction of travel, the opportunity is clear.

Our industry is always evolving and in order for us to stay the market leader over the long-term, it is important that we continue to adapt to changes in client expectations and the regulatory landscape. In recent years we've invested heavily in a number of areas, including technology to improve services for clients and better support Partners, in our investment proposition, and in the evolution of our brand.

Consumer Duty puts good client outcomes at the heart of the financial services industry, something that we have always believed to be of the utmost importance. Expectations will continue to evolve, with a focus on simplicity and comparability across financial services. Against this background, we have built on our Consumer Duty work and completed a more comprehensive evaluation of our charging structure. An evaluation which is now concluded.

The principal purpose of this work was to reinforce our position as the best place for clients to build strong financial futures. To do this, we looked at our charging structure through three key lenses. First, 'simplicity', ensuring our charges are easy for clients to understand, and easy for our Partners to explain. Second, 'comparability', making it clear what service is provided as part of each charge so clients can more easily compare across the industry. And finally, and most importantly, 'value-focused', ensuring our charging structure highlights the good value that SJP provides for clients with our high-quality service. By ensuring that our renewed charging structure meets each of these points, we will be well placed to continue to lead the market into the future.

To meet these criteria we are making three key changes that will come into effect during the second half of 2025. First, at the point of implementation, we will be removing the EWC mechanism from all future new business. Instead, new bond and pension business will continue to operate with an initial advice charge but no initial product charge. Ongoing product and advice charges will apply from the outset and there will be no six-year gestation period. Existing bond and pension investments will though continue to operate with an EWC mechanism as applicable, until these naturally expire, following which there will be no further EWCs applicable to any business. This change for bonds and pensions will better align our charging structures across our investment wrappers, simplifying our proposition for clients.

Second, we will be separating our charges, outlining them in their component parts, being advice, product, and investment management. This will make it easier for Partners to explain charges to clients at the start of their relationship and in turn for clients to review

and compare as part of their decision-making process, particularly against competitors that do not offer the same fully integrated service that we do.

And finally, in separating our charges into their component parts, we will be able to rebalance our charges to better align with where clients receive value across the components of our service proposition, as well as introducing tiering for larger investments on ongoing product charges.

So, what is the outcome of these three key changes? While the individual client impact will depend upon the product wrapper and the duration of each investment, the resulting level of client charges across all wrappers will continue to compare favourably with competitor rates available in the marketplace, representing good value for the high-quality, financial planning service that our Partners provide.

These changes will reduce complexity in our product structure; improving comparability and will support our brand and reputation, broadening SJPs appeal over time. This will set us up to maintain our market leadership over the long-term, and future-proof the business as industry dynamics and client expectations change. Moving forward with this sustainable new structure SJP will be well placed to capture the significant opportunity ahead for the advice market.

I'll now take a moment to illustrate what the new charging structure looks like, after the changes that we have announced today.

Starting with our unit trust and ISA wrapper, as you can see from the slide, we have further improved the value that we offer to clients by reducing both our initial and ongoing charges, whilst moving from a bundled charge to one which clearly separates into the three component parts of our ongoing service.

To keep things simple, what we've illustrated here is what the charges would be for a new investment of £100k into one of our most popular funds. The wrapper would include an initial advice charge of up to 4.5%, though in practice this will vary with the size of the investment and the complexity of advice required. After this, an ongoing charge of 1.59% will apply in each year, though there will be some variation based upon the choice of investment funds.

Going forward, SJP will continue to retain product charges, but will also retain a proportion of the advice and fund charges, reflecting the Group's activity across all of these areas. Craig will take you through what this means for the financials shortly.

Turning to the structure for our investment bond and pension wrapper, where we are implementing more substantial changes, harmonising with the structure of our unit trust and ISA wrapper. The only difference between the wrappers being a slightly higher product charge here, reflecting the higher administration requirements of these products. This means from the point of implementation, new investment bond and pension business will no longer operate with an EWC, resulting in a different pattern of contribution to the Cash result.

Compared with our current model, initial charges will be lower, while the introduction of ongoing product charges applicable from the outset means that ongoing charges will be higher for the first six years than they are today, but then lower thereafter. Again, the

resulting level of client charges will continue to compare favourably with competitor rates available in the marketplace.

Finally, the split of charges between components has been rebalanced towards advice charges, reflecting the fact that the advice lies at the heart of the value SJP delivers for clients.

The changes that we are announcing today will be completed in the second half of 2025 but our change programme will be structured in such a way as to safely deliver improvement and value as the programme progresses. Craig will touch on the costs of this implementation programme shortly.

So just to recap, we've announced today several key changes to our future charging model. These provide us with a sustainable and competitive charging platform that will help us in our ambitions to maintain our position as the leading financial advice business in the UK. These changes reflect the fact we can see consumer trends are evolving, as is the regulatory environment, and in completing our evaluation and effecting these changes, we leave ourselves in great shape to remain focused on driving value for all of our stakeholders, from clients to Partners, to employees and to our shareholders.

With that, I'll now hand over to Craig to cover the financial impacts.

Craig Gentle, Chief Financial Officer:

Thanks Andrew, and good morning everyone.

I'm going to cover the financial impact of the changes that Andrew's outlined and the way they'll affect the Cash result in the future before providing some guidance on how you might go about modelling them. Finally, and for illustrative purposes, I'll give an overview of what the revised pattern of the Cash result might look like in the future. I'll also comment briefly on Embedded Value, IFRS and solvency and then the dividend.

So turning to the Cash result first, there are four key things coming from the changes we've announced that will impact on the result. These are, the removal of initial product charges, the simplification of charges for Bonds and Pensions, the lowering of ongoing charges and the costs to implement the changes. Let's take a moment to illustrate how these changes will affect each of our two main product wrappers.

Starting with Bonds and Pensions, the chart shows our retained margin in each policy year with the current structure shown in blue, comparing to the future structure shown in green.

Covering initial product charges first, as this slide shows, and as Andrew's mentioned, new business written in the new charging structure will carry no initial product charges. This will have an immediate effect on the Cash result from the point of implementation onwards, serving to eliminate the margin arising from new business.

The second item is the simplification of charges on Bonds and Pensions which means from the date of implementation, there will be no gestation period for new business, meaning that new bond and pension business written from that point on, will immediately start contributing to the Cash result. The benefit will be small initially but will increase more

rapidly as new business accumulates in the new structure, having a significant positive effect on the Cash result in the medium to long term.

As a reminder to those less familiar, gestation is a feature of our current charge structure, whereby new bonds and pensions business does not earn annual management charges in the first six years after it's written, thereby creating a temporary drag on the Cash result, but good visibility over future growth in income as it matures beyond six years. As a point of interest, some £47bn of funds under management was in gestation at the half year and this stock of funds will continue to mature over time.

As we look ahead therefore, we will get the twin benefit of new business contributing from day 1 and we will also get the benefit of existing FUM in gestation maturing over time.

The third impact is that we are both reducing and harmonising the ongoing product charges for mature bonds and pensions that are outside of their gestation period. These reductions in product charges are partially offset by a higher retention of ongoing advice charges but the net benefit to clients will reduce the margin for net income from FUM. This revised margin will apply to gestation funds as they mature going forwards.

Now turning to our unit trust and ISA wrapper, the changes to the charging structure are much simpler, resulting in the removal of initial product charges and a reduction in ongoing product charges.

The final impact arises from the one-off implementation costs of £140-£160 million that Andrew's already referenced. This implementation project will get underway immediately and I expect costs in 2023 of some £10m followed by £95m in '24 and £45m in the first half of 2025. The majority of these costs relate to substantial systems and process changes needed in order to unbundle and forward account for existing investment products and of course to be able to run new investments made from the point of implementation onwards. These costs will be disclosed separately within the Underlying cash result and will not be considered within our controllable overheads on the basis that they're one-off in nature.

Taking a step back from the detail of these changes, we see that the first and third items will act as an immediate drag on the Cash result from the point of implementation, but the second item will act to accelerate growth in the Cash result as we gradually move away from the current gestation structure.

Putting all of this together, the net effect is that the Cash result will be lower in the short term as we transition to the new structure, but is likely to be higher in the medium to long term as we begin to generate income from the outset across all of our product wrappers.

I'll now provide some guidance on how you might model the ongoing impact of these changes.

The simplification of our charging structure will not only aid comparison as Andrew has mentioned, but it will also present an opportunity to simplify our accounting in the future. For now though, I will provide guidance based on our current format of reporting.

Starting with the 'margin arising from new business', we would no longer expect this line to contribute to the Cash result from the point of implementation, because of the removal of initial product charges.

Turning next to the income from funds under management, there are two key drivers that will influence its profile under the new structure, these are the overall margin and the mature FUM balance against which the margin should be applied.

The margin range for net income from mature funds under management will reduce going forwards. And the range we are now guiding on, from the point of implementation onwards, is set out on this slide.

However, as I've mentioned, you should also assume that 100% of gross inflows will contribute immediately to mature funds in the future.

The effect of this is that our new margin range will apply to a quickly increasing proportion of funds under management as the gestation balance in existence at the point of change matures. Following this six-year transition period, there will be no further concept of gestation FUM and the margin range will apply to all funds under management.

Finally, you will also need to allow for the one-off implementation costs, using the phasing profile that I've already described.

There are a number of key factors that drive the Cash result that have to be subject to key assumptions. These include market performance and the impact of the operating environment on gross and net flows. The impact of what we've set out today however will result in a more straightforward financial model where cash emerges in line with the development of total funds under management. Getting to this point reduces the Cash result in the short term but strengthens it in the medium to long term given the absence of a gestation balance.

Now there's always a challenge with forecasting the future, particularly given the assumptions I've just described. But I thought it might be helpful to show you how the combined income components of our Cash result, being the net income from funds under management and the margin arising from new business, might have progressed over the last six financial years had we have put in place this structure back in 2016 and kept everything else as actually achieved. What you can see from this slide is the pattern I've described, with the Cash income impacted in the early period of transition but then recovering rapidly.

Next, let me mention embedded value. Now that we've made a decision to change our charges structure, we will perform a full reassessment of embedded value taking into account all of the changes. Our preliminary re-assessment however is that embedded value per share, now that the decision has been made, is approximately £13.60 per share.

For those of you that model IFRS, income will be impacted by the net changes to ongoing charges. If you take the margin I guided on for net income from FUM in the Cash result and gross it up for tax, it will give you the IFRS revised income. It's worth noting though that there will be no further deferral of initial product charges under IFRS and so there will be a net positive as the current stock of deferred income amortises.

There is very little to say on solvency because the changes we've announced have very little impact either now or in our projections. It remains strong with a ratio that's consistent with the risks of the business.

Finally, I'll comment on the dividend. The changes I've outlined and the guidance I've given will result in your models showing a different trajectory for Underlying cash than the ones you currently have. Our approach of allocating 70% of the Underlying cash result to dividends, will remain unchanged and you should use this to model expected outcomes. Having said that, the Board is very much aware of the importance of dividends to shareholders and will always take account of the circumstances and the operating environment to decide whether a higher pay-out ratio or other methods of return, are appropriate.

I hope that gives a good perspective of what all of this means for our financials so let me now hand back to Andrew.

Andrew Croft, Chief Executive Officer:

Thank you, Craig. I'd now like to spend a few minutes adding some colour to the Q3 new business update we also communicated to the market this morning.

I am pleased to announce another robust quarter for St. James's Place, with our advisers attracting £3.7 billion of new client investments to the business.

Retention has again remained strong at over 95%, supporting a further £0.9 billion of net inflows and contributing to funds under management closing the period at £158.6 billion.

The demand for trusted, face-to-face financial advice remains as strong as ever, but client capacity and confidence to commit to long-term investments has been impacted in the near-term by an environment characterised by high interest rates, stubbornly high inflation and short-term alternatives in the form of cash.

Despite a continuation of the challenging operating environment that we saw in the first half of the year, we continue to generate significant levels of net inflows, once again demonstrating the ongoing resilience of our business model.

Looking forward, we are beginning to see signs that inflation is moderating and that the current cycle of interest rate increases may be reaching a peak, bringing optimism that this will ease the pressure on clients and will, in due course, increase the confidence to commit to long-term investment.

Having taken you through our resilient new business performance and the changes that we are announcing today to simplify our charging structure, I wanted to take a moment to reiterate that there are no changes to our wider strategic priorities or dividend policy. We will therefore continue to measure ourselves against the targets that we set out in our 2025 business plan ambitions, recognising that these are challenging in the current market environment, but it is very much business as usual, and we continue to focus on the same six business priorities to deliver for all of our stakeholders.

2023 to date has highlighted the importance of our robust business model as we have navigated challenging external conditions effectively and continued to grow our business.

We continue to see an attractive market opportunity and the review that we have undertaken leaves us well placed to capitalise on this and lead the advice market into the future, delivering long-term, resilient growth for our clients, Partners and our shareholders.

So that’s it for our presentation, but before opening up for the live Q&A session, I just wanted to leave you with three key messages.

First and foremost, clients will benefit from the changes we are making to charges as well as from a simpler and more comparable fee model.

Second, there remains a huge opportunity for trusted, face-to-face advice in the UK.

The changes we’ve announced only strengthen my conviction that SJP is well placed to capitalise on this opportunity by establishing a sustainable and compelling model for the future. Supporting growth and enhancing our market leadership.

Finally, we have an implementation plan and transition period to navigate, but these changes will present benefits for all of our stakeholders.

That’s it from us. Thank you for listening and over now to the Q&A.