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## 2023 Half Year Results Presentation Transcript

27 July 2023

**Andrew Croft, Chief Executive Officer:**

Good morning and welcome to our 2023 half year results.

As usual, today's presentation has been pre-recorded and we will be hosting a live Q&A at 9.30am.

This morning's session will follow a familiar format, so I will begin with a run through of our new business figures and how we've prepared for the new Consumer Duty regime. I will then hand over to Craig who will take you through our strong financial results. It will then be back to me where I will give a general update, covering progress against our business priorities and how we see the near-term outlook for SJP.

So, starting with new business.

What's apparent is that the backdrop for UK consumers and savers has been challenging.

Inflation has been higher for longer meaning rising pressure on household budgets and savings. Meanwhile, the Bank of England has reacted by raising interest rates and this has had a knock-on effect to both savers and borrowers. In addition, the economic outlook is subdued with UK GDP growth expected to be sluggish at best.

While this paints a gloomy picture of the current backdrop, and we are of course empathetic to the difficulties household face, it's important to remember that the need for advice isn't going away. It's only growing stronger as individuals realise the challenges to achieving their long-term aspirations.

Our advisers are facing into this by supporting their clients with financial planning, advice, and investment solutions, all to drive good long-term client outcomes. This means that while many of our clients will be feeling pressures in the short-term, they will be mindful of the need to maintain a mindset that keeps them on track for their long-term futures that they have planned for themselves and their families.

It's therefore little surprise that our new business performance has been resilient during the first half of the year with our advisers supporting their clients to invest £8 billion during the period. Breaking this down by wrapper, our pensions flows were stable year on year reflecting the commitment many clients make to organising and saving for their retirement plans whatever the weather.

Gross inflows into investment bonds have also been robust but it is in our unit trust and ISA wrappers where we have seen a more noticeable slowing in the pace of new investments during the first half. In many respects both unit trusts and ISAs are often the beneficiaries of

surplus savings and liquidity and we saw this in 2021 when gross inflows increased by 39% as households invested excess savings accumulated during the pandemic. But when individuals are feeling more cautious about making discretionary investments or have less capacity to invest, this can often mean a slowing in unit trust and equity ISA flows as has been the case this year. Furthermore, with savings rates increasing there have been considerable flows across the industry into cash ISAs.

Whilst we do not 'manufacture' cash ISAs it is interesting to note that we've seen an acceleration in client investments into our-third party cash management portal with some £1 billion additional investment into that platform compared with the first half of 2022. Whilst these client investments are not included in our flows or funds under management, as we don't earn income on them, they form an important part of the holistic proposition we make available to clients, particularly at times like these, and they give advisers great insight into future investment capacity with their clients.

Similar themes explain some of what we have seen in the pattern of outflows during the first half. While our retention rate of 95.6% remains very resilient, there has been a return to more normal regular withdrawal rates across our bonds and pensions books, as expected. We have also experienced an increase in surrender rates across our unit trust and ISA wrappers. As I just indicated, unit trusts and ISAs are often the beneficiary of surplus savings and liquidity, so these wrappers are naturally the source of liquidity for those clients who need it and this is something that we've observed, especially for smaller investment portfolios.

Clients have invested to be able to provide for themselves at a point in time, and the fact that they are able to draw on their investments in these more challenging times, is really testament to the value of advice and the actions that it encourages.

The result of these gross inflows together with the strong retention, is net inflows of £3.4 billion in the first half. Given the external backdrop I think they highlight the resilience of our model and the great job our advisers do in serving clients well to keep them on track for the future. What's more, these flows build on our track record of having achieved net inflows in every quarter over the past 30 years.

This history of positive net inflows, compounded by positive long-term investment returns, has driven strong growth in total funds under management over time and I am pleased to report that these reached a record £157.5 billion at the end of June.

So, resilient new business performance and record funds under management, both achieved against a challenging backdrop.

Before handing over to Craig, I want to talk about Consumer Duty as this is a very significant change to the regulatory landscape that we've been planning for ahead of it coming into force at the end of this month.

The FCA's Consumer Duty is a far-reaching set of regulatory standards that touches all businesses engaged in retail financial services, whether large or small. At its heart is a new consumer principle: that firms act to deliver good outcomes for retail clients.

As a business that has always sought to achieve good client outcomes through a holistic, end-to-end client proposition, we've started from a good place, but we've nonetheless

undertaken a very significant programme of work to review a huge range of elements across our business, including our systems, controls, policies and procedures, and training frameworks.

We're implementing a number of changes across our business in order to further strengthen the outcomes we achieve for clients, but I want to highlight one that really demonstrates our commitment to enhancing the value we offer to them.

Reflecting on the scale and maturity of the business today, and to further increase the competitiveness of our bonds and pensions business through the lifecycle, from the first of August we're capping, at 85 basis points, the annual product management charges on client bond and pension contributions at the point each contribution has been invested for 10 years. This represents support for clients who have invested over the long-term and we estimate there are around 65,000 clients who will immediately benefit from this positive action, a figure that will grow over time. Craig will cover the financial implications shortly.

On the topic of the Duty, now that it is coming into effect, we are treating the completion of the specific work that was required, as an opportunity to continue to evaluate our business and enhance long-term and sustainable value for clients, the Partnership, shareholders, and all other stakeholders.

That's it from me on the first half so over to Craig to cover the financials.

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**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 the half year and in so doing, I'll cover the Cash Result, Embedded Value, IFRS and Solvency.

So – turning firstly to the cash result, it's worth noting that this is a post-tax measure and so all of the figures are reported net of tax at 23.5% in 2023 compared to 19% in 2022. This slide in your pack shows the impact of the change and for context, although the underlying cash result has grown by 4% on a post-tax basis, if you take account of the rate change, this is growth of more like 10%.

Anyway, moving on to the "all-important" Net Income from Funds Under Management, the total net income reported is broadly unchanged compared to the same period in 2022.

However, without the tax rate increase, income grew by 6% reflecting a growth in average 'Mature' Funds, and over £20m from maturing gestation balances which contributed to the result for the first time.

The margin for the first half was within the 59 to 61 basis points guidance that we gave back in February.

As Andrew has noted however, we've taken a decision to cap annual management charges on client bond and pension investments with a duration longer than 10 years. This change takes effect from August onwards and the impact will be to lower the margin range to between 55 to 57 basis points for the second half of 2023. All things being equal, this amounts to a post-tax reduction in net income from FUM of somewhere in the region of £12m for the second half.

This 4 basis point downward shift in the range will replicate into future periods but will of course be compounded in 2024 with a further 1 basis point reduction as a result of a higher rate of tax with 25% applying for the whole year.

As I've said previously, funds in gestation continue to be a very significant store of value for shareholders with a highly visible future emergence of cash.

At the end of the period the funds in gestation stood at £47.2 billion, which has increased since December, largely due to improvements in the markets. As funds mature and start to contribute for the first time, gestation is re-stocked by a constant flow of new investments.

For illustrative purposes, the full gestation balance could, in due course, contribute around £370 million a year to the Cash Result, free of course of any additional cost.

The net income arising on new business in the first half was £53 million. This is a 21% reduction compared to the same period in 2022. The key drivers for this reduction are the lower new business volumes as an absolute, together with the negative gearing that this pattern results in, together with the change in tax rate. The margin percentage on new business will increase when inflows increase on a like-for-like basis.

Controllable expenses of £134 million are net of tax are up 2%, which is in line with guidance. This of course reflects a planned increase of 8% on a pre-tax basis. We still expect to contain the full year growth in controllable expenses to no more than 8% for the year.

Stepping back from the headline number for a moment, you will recall that around half of our controllable expense base relates to people, so professional wage inflation has been the biggest single factor in our planning for 2023, but inflation of course affects many other expenses too.

You will also recall that 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.

Our business in Asia has experienced the same market and economic challenges that we have seen elsewhere. Back in February I flagged the need for some restructuring cost, and the net investment of £10.8m reflects these and includes the closure of Shanghai and a modest amount of Partnership rationalisation.

We now expect total net investment to be around £17 million for the full year and remain

committed to making the business break even by 2025.

Our DFM business has delivered a result in line with guidance, and it remains on track to break even by 2024.

As a reminder, DFM will experience a sharp reduction in costs in 2024 when we'll have completed the back-office re-build which is being charged to profit as the expense is incurred. We continue to expect net investment of around £8 million for the full year.

Turning next to the FSCS levy and regulatory fees, our expense of £16 million for the period was 50% lower than for the first half of last year. The reduction is a function of accumulated reserves in FSCS being used rather than a reduction in cases needing compensation and it may therefore be the case that the reduction is short-lived. For this reason, last year's expense may be more typical than this year's.

At this point we believe FSCS costs for the first half will represent the cost for the full year; you should assume however that this line will increase by a further £7m to account for other regulatory costs that will accrue in the second half.

We've always earned Shareholder interest on invested elements of working capital.

I should emphasise these balances are not client related; rather they are part of shareholder working capital, regulatory capital and therefore within shareholder funds. The reality is though that the very low interest rate environment over the past 10 years has meant they contributed minimal amounts to the Cash result.

The current base rate of 5% compares to a quarter of a percent at the start of 2022 and means that shareholder interest is far more significant, contributing £27.5 million in the first half of the year.

For modelling purposes, if the current base rate of 5% were to hold for the rest of the year, we estimate that shareholder interest could be somewhere in the region of £60 million, some £10m more than we anticipated at the start of the year. If you step back from the financial dynamics of the business this serves as a helpful foil against inflationary pressure in the cost base.

Tax relief from capital losses was £2.1 million, reflecting the full and final utilisation of the remaining stock of capital losses. Providing this position is maintained for the full year, capital loss recovery will no longer be a feature in future cash results.

Miscellaneous charges are broadly unchanged at £11.2m.

So, taking all these items into account, our Underlying cash result in the first half was £207m, which is 4% up on last year. And again, if we strip out the impact of the increased corporation tax rate then the Underlying cash result has increased by 10%.

This is a record financial performance delivered in a very challenging operating

environment.

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

Firstly, it's worth remembering that the first half of 2022 benefitted from an operating assumption change where we lengthened the expected durations of our Unit Trust and ISA business based on actual experience. Changes like this are generally infrequent and have not been a feature of 2023.

Secondly in 2022 we saw a significant market variance of over £1.3bn whereas stronger markets in 2023 have delivered a positive of £158m.

Finally, and relevant to 2023, I commented earlier on the Cash Result impact of the decision to cap annual management charges on longer duration bonds and pensions. This prompts the need for a reassessment of all future cashflows and the effect of this can be seen in an exceptional reduction of £859m at 30 June 23, or £644m post tax.

The EEV net asset value per share at 30 June was £16.28.

I'll comment briefly on IFRS but only really to note that you can see the same complications we normally see, with Policyholder tax asymmetry that ultimately reverses over time.

The first half has also seen the arrival of IFRS17 which for many Insurance Groups significantly impacts on financial reporting. The vast majority of SJP's products are however categorised as investment products rather than insurance products for accounting purposes. This means that the impact on our financial reporting is very minimal and largely contained to changes in disclosures. There is a slide in the pack for those interested in seeing more detail.

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 period our Solvency ratio for our life companies stood at 131%, which is materially ahead of our approach of holding 110% of the standard formula.

Finally, I'll comment on the dividend. The Board has declared an interim dividend of 15.83 pence per share. This is in line with our guidance and reflects a payout of 30% of the prior year full dividend. It will be paid on the 22 September based on the share register at 24 August.

Well, that's it for the financials. As I've already mentioned, very strong financial results in spite of a very challenging set of operating conditions.

Now back over to Andrew.

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**Andrew Croft, Chief Executive Officer:**

Thank you, Craig.

Having taken you through our resilient new business performance and strong financial results, I'm now going to cover progress against our six business priorities before considering how we see the near-term outlook for SJP.

So, a reminder of those priorities. Craig has just covered the strength of our financial results, so I won't go over that ground again here, but I want to touch on the other areas:

Starting with Building Community.

During the first half we attracted a net 73 new advisers to the Partnership, growth of 1.6%. As planned, we've had an increased weighting towards Academy graduates over experienced recruits, and we're delighted with the quality of individuals we're able to attract to the business.

This means that we now have 4,766 advisers across the Partnership, strengthening our position as the leading advice-led wealth management business in the UK.

Beyond the UK, you will have noted that during the first half we established a toehold in the Middle East with the opening of a new office in the Dubai International Finance Centre. Having learned from our experiences elsewhere in our regional Asian wealth hubs of Hong Kong and Singapore, we're confident that our adviser and client propositions will land well in what is a very attractive market. This initiative supports our ability to serve and advise a large population of existing expats and internationally mobile individuals in the region, as well as to provide continuity of service to those existing UK clients seeking to move to the Middle East and further afield. For the avoidance of any doubt though, this does not change our 2025 ambitions for Asia as a whole, with our teams working hard to grow funds under management and achieve cash break-even.

Turning to our investment proposition, the first half has seen continued activity in evolving our funds and portfolios to help drive continued good client outcomes going forward. This includes broadening the geographic remit of our government bond proposition beyond UK gilts, offering clients the benefits that arise from greater diversity. We've also appointed Dalton Investments to co-manage the Japan Fund and added Fulcrum Asset Management to the team of fund managers on our Global Absolute Return Fund. Select, Monitor and Change is a crucial part of our process in ensuring our investment proposition adapts and evolves to a shifting investment landscape and these changes which come into effect shortly, have all been made with client outcomes front of mind.

Being easier to do business with is a critical programme of ongoing work that we have undertaken to ensure that our advisers and clients can engage and transact with each other and SJP in a way that's as simple and easy as possible. A good example of our innovation in this area is our launch of an Advice Assistant during the first half. This is a new tool for our advisers that uses advanced analytics and machine learning to support our advisers reduce their admin burden when advising on new ISA business. What this means

is that a process that might have consumed an hour or so of an adviser or their support staff time previously, can now be completed in as little as ten easy clicks. It's early days as it's a relatively recent innovation, but we're excited at the opportunity this type of development brings.

On Brand and Reputation, we're working hard to identify those areas where we can drive great experiences and client outcomes for clients. Our latest Wealth Account Survey results from early 2023, remain very strong with improved scores on advocacy and value for money, but we have observed a small dip in overall client satisfaction levels. We're not unique here as industry data suggests that this is a broader feature across financial services reflecting the difficult economic environment but as a client-centric business, this is something for us to really focus on. We've spent time engaging with the Partnership and client community groups to better understand what progress we can and should be making over time.

Finally on our culture and being a leading responsible business, we continue to communicate and embed our responsible business strategy across SJP, ensuring our community has a shared understanding and commitment to drive positive change, whether that's through responsible investing, improving financial wellbeing, acting to limit climate change, or through our community impact.

And I just want to touch on the latter as one thing I have always been proud of is our commitment to giving back via the St. James's Place Charitable Foundation and I am delighted to report the SJP community raised a further £5.1 million in the first half inclusive of company matching. A recent external Foundation impact assessment suggests that 3.5 million people have been directly supported by the Foundation over time with a further 7.7 million people indirectly impacted. What's more, this funding makes a real difference with evidence from grantee charities indicating that two-thirds of beneficiaries see either a transformational impact or at least some substantive improvement in their lives because of these funding grants.

This is something that all in the SJP community can be rightly proud of.

Having summarised the progress we have made as a business over the course of the first half of 2023, I'll turn now to considering how we see the future.

The first point to make is that the near-term consumer environment remains challenging. Inflation is now falling, but slowly, and we may well have to get used to inflation and interest rates staying higher.

But as I stated at the outset, the need for advice isn't going away. Quite the opposite. Advice helps people achieve their goals and aspirations so as these challenges and headwinds mount, the need for advice will grow. This is what we've seen in the past and it's what we're bound to see happen again.

This means that while the flows environment is tough right now, we have confidence that the long-term market opportunity is very attractive. Not just that, but we continue to build from a position of strength where we have the largest and, we think, the best community of advisers; we have a great proposition, and a long-term commitment to how we deliver for



clients – through delivering trusted, long-term financial advice and by placing great store in the value of the relationships built by our advisers.

As the environment improves over time, I am as confident as ever that we will be well positioned to capture the opportunities that lie ahead and drive us on for our ambitions for 2025 and beyond.

That's it from me so I'll finish with a summary of the results which you can see on the slide.

Once again, a strong operating and financial performance in challenging market conditions, highlighting the strength of our business and underpinning our confidence in the future.

Thank you for listening and do please join us at 9.30am for the live Q&A session.