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Ratings

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St. James's Place U.K. PLC

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Table Of Contents

1683222 | 301742004

St. James's Place U.K. PLC

SACP* Assessments				SACP*		Support		Ratings
Anchor	a-	+ Modifiers	0	= a-		+ 0		= Financial Strength Rating
Business Risk		ERM and Management	0	Liquidity	0	Group Support	0	A-/Stable/--
Satisfactory								
Financial Risk		Holistic Analysis	0	Sovereign Risk	0	Gov't Support	0	
Strong								

*Stand-alone credit profile.
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

Rationale

Business Risk Profile: Satisfactory

- St. James's Place PLC (SJP) has a robust position in the retail unit-linked pensions and savings segment.
- SJP's sales are almost exclusively in the U.K. life market, which in our view benefits from low insurance industry and country risk.
- However, our assessment of SJP's competitive position is somewhat constrained by the narrowness of its product and geographic profiles.

Financial Risk Profile: Strong

- Our view of capital and earnings, although strong, is tempered by a substantial reliance on the present value of future profits (i.e., value of in-force), and exposure to operational risks and reputational risk that our risk-based capital model may not adequately capture.
- We view SJP's risk position favorably due to the group's conservative management of its liability profile and shareholder assets.
- In our view, SJP's financial risk profile also benefits from limited capital needs and a largely debt-free balance sheet.

Outlook: Stable

The stable outlook reflects our view that SJP will continue to operate profitably within the wealth management sector and maintain its growing sales and earnings despite the uncertainty arising out of the U.K.'s referendum vote to leave the EU ("Brexit") and possible regulatory changes.

Downside scenario

We may lower the ratings if:

- SJP finds it difficult to grow its base of tied agents (or "Partners") and thus its client base; or
- If SJP suffers from reputational damage which materially impairs its earnings profile over the long run; or
- Retention rates as a percentage of average funds under management (FUM) fall to less than 90% or net flows turn negative, which could indicate a weakening in the business model; or
- The group's capital structure weakens due to greater leverage of the balance sheet, and if the fixed-charge coverage ratio falls below 4x.

Upside scenario

We view an upgrade over the next 24 months as unlikely. An upgrade would be dependent on expansion of its narrow product profile and/or material, profitable growth in Asia-Pacific.

Base-Case Scenario

Macroeconomic Assumptions

- Our current estimates suggest that Brexit will produce a drag amounting to 1.2% of GDP for the U.K. in 2017 and 1% in 2018. These new estimates assume that access to the single market is maintained in 2017 and 2018 and that the Bank of England succeeds in keeping turmoil in financial markets in check.
- We expect the Bank of England base rate to be slashed to zero by the end of the year.
- In our opinion, the pound exchange rate against the dollar to average $1.33 in 2016 (compared with $1.53 in 2015), and $1.29 in 2017.

Company-Specific Assumptions

- We expect the growth in the number of SJP's Partners to gradually continue, driven by its internal training academy.
- We anticipate that SJP's new business margins will remain strong at around 4% as we don't expect any material changes to the business model.
- We expect the dividend pay-out ratio to stabilize at around 75% of net income.
- In our view SJP will maintain its capital adequacy levels at extremely strong over the next 2 years.
- We anticipate that fixed coverage charge ratios will remain in excess of 8X over the next 2 years.

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Key Metrics

Table 1

Key Metrics

	--Year-ended Dec. 31--					
	2012	**2013**	**2014**	**2015**	**2016f**	**2017f**
Net inflows (bil. £)	3.4	4.2	5.1	5.78	6.3	6.7
Life new business margin (%)	4.7	4.5	4.5	>4	>4	>4
Financial leverage (%)	0	0	0	<20	<20	<20
Fixed-charge coverage (x)	N.M.	N.M.	N.M.	>8	>8	>8

f--Forecast. N.M.--Not meaningful.

Company Description

SJP is a U.K.-based wealth manager. It focuses on customers with investable wealth of £50,000 to £5 million. As of March 31, 2016, SJP had FUM of £62 billion (year-end 2014: £52 billion). St. James's Place U.K. PLC is the main regulated operating entity, which we assess as core to the group.

SJP's business model is an outsourced one, with the group providing close management and oversight. SJP distributes its unit-linked pensions and savings products exclusively through a network of tied agents called Partners. As of Dec. 31, 2015, the number of Partners was 2,264, up 6% on the prior year. The products that SJP sells are invested in funds, which are externally managed by a broad range of providers selected with the help of external consultants, Stamford Associates. The administration of the products is also outsourced to third parties.

Business Risk Profile: Satisfactory

The group achieves robust new business margins in a relatively narrow spectrum of products in the U.K. life insurance market.

Insurance industry and country risk: Low, as the majority of sales are in the U.K.

SJP is exposed to the U.K. life insurance market. We continue to assess this market as having low industry and country risk, notwithstanding the recent Brexit vote. We have revised our view of the country risk to low from very low, reflecting the recent sovereign downgrade. Our intermediate industry risk assessment captures the typical level of risk that life insurers operating in the U.K. face, and remains unchanged post the Brexit referendum.

We assess industry risk for the U.K. life insurance sector as intermediate. In our view, though the U.K. life insurance industry has been under intense political scrutiny, with further changes possible following the Brexit vote. The sector has successfully adapted its business model to the recent political and regulatory developments. We consider the sector to be highly competitive, but believe that it nevertheless maintains moderate levels of profitability.

Competitive position: Strong results despite increasing change in regulation

SJP uses its network of tied agents and long-term relationships with clients to achieve robust new business margins. In 2015, approximately 90% of SJP's new business came from existing clients and their referrals. Thus, our assessment of its competitive position is supported by new business margins on a present value of new business premium basis, which we expect SJP to maintain at around 4%.

In our view, SJP's overall competitive position is constrained by the narrowness of its product and geographic profile. SJP broadened its profile in the Asia-Pacific expatriate community via the integration of the Henley Group (acquired in 2014). In February 2016, SJP also finalized its acquisition of Rowan Dartington & Co. Ltd., with funds under management of £1.26 billion. Rowan Dartington specialises in Discretionary Fund Management, including direct equity, trust, and charity portfolio management. Nevertheless, we do not view the inflows from the Asia operations and Rowan acquisition as material enough to diversify the product profile over the next two years and merit a stronger competitive position assessment. As a result, we view the group as more susceptible to industry, regulatory, and reputational risks than its peers.

In March 2015, the U.K. government increased the allowance for tax-free savings accounts (called ISAs) and introduced the ability to switch between cash and stocks. In our view, this will provide an opportunity for SJP to increase its FUM, given 34% of its new business in 2015 came from Unit Trusts and ISAs. Regarding the decrease in the lifetime allowance to £1 million (which took effect April 6, 2016), we expect any limitation relating to pension pot additions to be offset by contributions to other investment products provided by SJP, such as investment funds.

We expect growth in net inflows to balance out to an average of 6%-7% a year until 2017, as the market becomes more saturated. Competitors are becoming increasingly focused on this segment, in our view. It may be from direct-to-consumer platforms, independent financial advisors (IFAs) who have successfully adjusted their business model after the Retail Distribution Review (RDR), or insurers increasing their own tied agent work forces. The group recently partnered with Metro Bank to supply banking services to its clients. We expect this will further help retain client funds.

We positively view SJP's initiatives to "grow its own" tied agents in response to competition for distributors. In addition to recruiting from the IFA population, the group has established academies across the U.K. in which agents can learn the necessary skills. The growth in the size of the Partnership was 6.2% in 2015, with 71 advisers graduating from the Academy.

Table 2

St James's Place UK Competitive Position				
	--Year-ended Dec. 31--			
	2012	**2013**	**2014**	**2015**
Funds under management (bil. £)	34.8	44.3	52.0	58.6
Growth in funds under management (%)	22.0	27.3	17.4	12.7
Life new business contribution (mil. £)	208.9	213.6	233.7	265.5
Life PVNBP new business margin (%)	4.7	4.5	4.5	4.3
Net inflows (bil. £)	3.4	4.2	5.1	5.8
Surrender rate as a % of average funds under management	4.9	4.7	4.0	4.3
Number of tied agents/partners	1,788	1,958	2,132	2,264

PVNBP--Present value of new business premiums.

Financial Risk Profile: Strong

Capital and earnings: A cash-generative business with limited capital needs

Under our risk-adjusted capital model, SJP has extremely strong levels of capital adequacy. However we assess the overall capital and earnings to be strong. This reflects our view that:

- The absolute size of solvency net assets is relatively small;
- The quality of total adjusted capital (TAC) is heavily reliant on the present value of future profits--one of the softer forms of capital for which we give credit; and
- SJP is exposed to operational and reputational risks that our model may not adequately capture.

However, we believe that SJP's capital position will be sustained by its ability to produce earnings from its growing asset base, which is subject to limited capital requirements given the lack of insurance risk. The nature of SJP's product structure is such that most of its new business does not generate cash for the first six years. After this time, assets held on behalf of policyholders are cash generative. SJP's strong growth over recent years means that about 30% of FUM do not currently generate cash profits, but are likely to do so over the next six years. We view the combination of the maturing back book and the group's limited capital needs as consistent with the dividend pay-out target of 75% that SJP has signalled to the market.

Table 3

St James's Place UK Capital				
	--Year-ended Dec. 31--			
(Mil. £)	**2012**	**2013**	**2014**	**2015**
Net income	107.1	190.3	187.9	202.0
Total shareholder's equity	762.5	906.1	1,010.1	1,095.1
Life value of in-force	1,549.3	1,583.7	1,825.3	2,012.9
Solvency net assets	403.5	507.6	572.0	609.0
Cash result	91.7	168.8	165.1	171.5
Dividends paid	54.0	82.1	120.7	146.5

Risk position: A conservatively managed balance sheet with low levels of volatility expected

SJP faces lower balance sheet risks compared to its peers in the U.K. life insurance market. The group manages its balance sheet extremely conservatively and we believe that it is likely to continue to do so. The majority of the group's shareholder assets are invested in U.K. government bonds or diversified among a range of 'AAA' money market funds. The cash balance of £233.5 million as of Dec. 31, 2015, is nearly all held in a number of U.K. banks that we consider to be highly systemically important. Within the group's back book there are no investment guarantees, limiting SJP's exposure to interest rate risk. In addition, the group has reinsured the majority of its small back book of protection liabilities.

Table 4

St. James's Place UK Risk Position				
	--Year-ended Dec. 31--			
	2012	**2013**	**2014**	**2015**
Investment portfolio composition (excluding unit-linked portfolios) (mil. £)	588.4	787.1	874.9	847.6
AAA rated money market funds (%)	55.0	66.4	59.1	62.6
Cash at banks (%)	31.0	25.0	31.4	27.5
Gilts (%)	14.0	8.6	9.5	9.8

Financial flexibility: Adequate and mostly debt-free balance sheet

In our view, SJP's financial flexibility is provided by its strong earnings. We therefore view its needs for capital as limited.

SJP has bank loans and a credit facility, which we view as operational leverage as they fund the agent network. Its financial leverage ratio is slightly below 20% as of year-end 2015, and we expect it remain at similar levels over 2016-2018. SJP's fixed-charge coverage is in excess of 8x, and based on our earnings expectations we expect it to remain at this level over 2016-2018.

Other Assessments

Enterprise Risk Management: Adequate with strong risk controls

We assess SJP's risk controls as a positive feature. We believe that the importance of enterprise risk management to the rating is low, given the levels of capital adequacy the group possesses as well as the low-risk product and investment profile.

Management and Governance: Experienced with a good track record

SJP's management team has specific financial and operational targets based on a range of metrics. We consider the group's consistent strategy as a strength where it focuses on growing its FUM and minimizing insurance risk. The management team's ability to execute its strategy is demonstrated by its track record of profitable growth through the cycle.

Liquidity: Exceptional

The group's shareholder assets are invested in highly liquid assets, while SJP's insurance liabilities are almost entirely made up of unit-linked business with limited liquidity risk.

SJP does not possess any directly rating-sensitive contingent liabilities that could lead to calls on liquidity. Agents are able to receive financial support from SJP to set up and maintain their business. These individual loans to agents are secured on the income streams that their sales generate, as well as, ultimately, their other assets. Overall, this, combined with SJP's cash generation and liquid assets means we view these bank loans as bringing limited liquidity risk.

Related Criteria And Research

Related Criteria

- Group Rating Methodology, Nov. 19, 2013
- Insurers: Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- U.K. Life Insurance Industry And Country Risk Overall Remains Low, Despite Brexit Outcome, July 12, 2016
- Europe's Economic Outlook After The Brexit Vote, July 4, 2016
- Proposed Reforms Are Unlikely To Rock The U.K. Life Insurance Sector, March 25, 2015

Ratings Detail (As Of July 28, 2016)	
Operating Company Covered By This Report	
St. James's Place U.K. PLC	
Financial Strength Rating	
Local Currency	A-/Stable/--
Counterparty Credit Rating	
Local Currency	A-/Stable/--
Domicile	United Kingdom

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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