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St. James's Place U.K. PLC

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Credit Highlights

Operating Company Covered
By This Report

Financial Strength Rating

Local Currency

A-/Stable/--

Credit Highlights

Strengths	Risks
Track record of increasing net flows and good operating performance.	Assessment is somewhat constrained by the narrowness of sector and geographic profiles.
Robust position in the U.K. retail unit-linked pensions and savings segment.	Substantial reliance on the present value of future profits and exposure to operational and reputational risk.
Relatively low reliance on debt.	Relatively small absolute size of solvency net assets compared with other U.K.-based insurers.

S&P Global Ratings believes that St. James's Place U.K. PLC's (SJP or the group) strong market position is supported by a track record of stable performance. SJP has a well-established and strong position in the U.K. private wealth management sector and a track record of stable margins and cash flows.

We expect net inflows and fees will remain resilient, but under pressure. Economic and competitive forces will make it challenging for SJP to build on its strong growth record. We expect surrender values will remain low and that business will continue to expand, albeit at a slower pace than previously.

Business and geographic concentration are risk exposures. SJP has limited geographic and sector diversity and is exposed to potential regulatory changes or reputational risks. Furthermore, SJP faces potential operational risks from its outsourced business model.

Outlook

The stable outlook reflects our view, over the next two years, SJP will continue to operate profitably within the wealth management sector and maintain its increasing sales and earnings. This is despite the economic 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 over the next 24 months if:

- SJP finds it difficult to expand its base of tied agents ("The Partnership") and therefore its client base;
- SJP faces pressure on its business model, either due to regulatory changes or reputational damage;
- Retention rates as a percentage of average funds under management (FUM) fall to materially less than 90%, or net flows turn negative, which could indicate a weakening in SJP's competitive position; or
- The group's capital or funding structure weakens, for example due to greater leverage of the balance sheet, and/or if the fixed-charge coverage ratio falls below 4x.

Upside scenario

We view an upgrade as unlikely over the next two years. It would depend on a significant expansion of SJP's narrow product profile and/or material, profitable growth in Asia-Pacific.

Key Assumptions

- Our current macroeconomic forecasts are premised on our base-case expectation that the U.K. will not leave the EU without a deal. However, should such a no-deal scenario materialize, we believe the U.K. economy would be forced to make a very rapid adjustment.
- We project real GDP growth will slow further to 1.1% in 2019 as uncertainty continues to drag on investment. Thereafter, we forecast that the economy will expand by an average of 1.5% over 2020-2022 in real terms.
- Under our base case, in which the U.K. agrees a deal with the EU, we expect further hikes in the bank rate will be gradual. A sudden departure from the EU would likely affect both sterling and inflation.
- For more detail, please refer to "United Kingdom Ratings Affirmed At 'AA/A-1+'; Outlook Remains Negative", published April 26, 2019, on RatingsDirect.

Key Metrics

Table 1

St. James's Place U.K. PLC--Key Metrics					
	2020f	2019f	2018	2017	2016
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Extremely Strong	Extremely Strong

Table 1

St. James's Place U.K. PLC--Key Metrics (cont.)					
	2020f	2019f	2018	2017	2016
Funds Under Management (Bil. £)	120-130	115-120	95.6	90.7	75.3
Gross premium written (Mil. £)	~40	~42	46.5	49.9	52.2
Net income (Mil. £)	130-150	130-150	173.5	145.9	112.2
Return on shareholders' equity (%)	12-14	12-14	16.7	14.0	10.3
Net inflows (Bil. £)	6-10	6-10	10.3	9.5	6.8
Reported surrender rates (%)	<5	<5	4.1	4.3	4.6
Financial Leverage (%)	<40	<40	32.9	32.7	33.8
Fixed charge coverage	~8x	~8x	8.6x	8.7x	8.9x

f--S&P Global Ratings forecast. \$ For years 2016 and 2017, capital adequacy is as per old criteria nomenclature.

Business Risk Profile

The group's competitive position is supported by its well-established position in the U.K. wealth management sector and strong results in net flows and earnings, despite increasing scrutiny from regulation. SJP draws on its Partnership and long-term relationships with clients to achieve robust new business flows. While the number of qualified advisers increased 8% in 2018, the gross inflows per qualified adviser, which is an important driver for SJP's growth model, remained flat. In 2018, approximately 88% of SJP's new business came from existing clients and their referrals, demonstrating the strength of its client relations. Our assessment of SJP's competitive position is supported by low surrender rate on average FUM, which was 4.1% in 2018 (4.3% in 2017). For first-half 2019, surrenders stood at £2 billion compared with £1.9 billion for the same period in 2019. We expect SJP will maintain surrender rates of about 4.0% over 2019-2021.

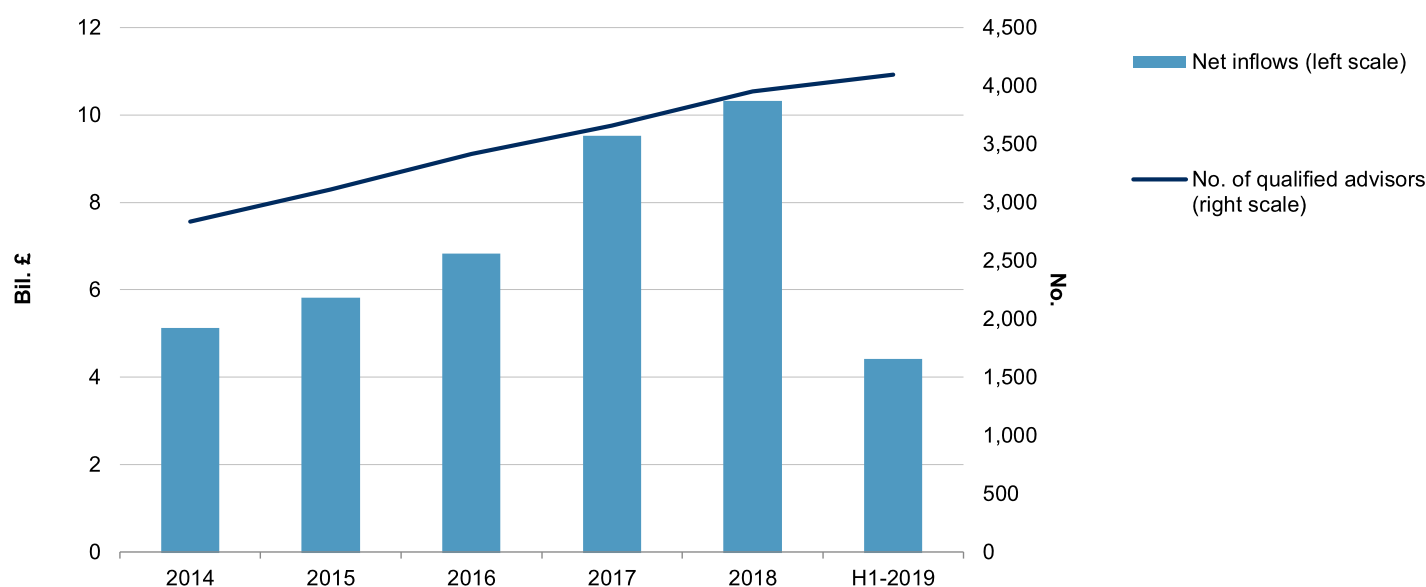
SJP's business model focuses on partnering with outsourced providers and the group distributes its unit-linked pensions and savings products exclusively through its Partnership. While the group maintains close management and oversight, we believe that its business model is potentially vulnerable to reputational risks inherent in the advice and outsourcing model. We expect the increased regulatory scrutiny of asset management fees and advice services may lead to pressure on SJP's operating performance, but overall the group will be able to capitalize on its loyal client base and deliver profitable growth.

In our view, SJP's overall competitive position is constrained by the narrowness of its product and geographic profile, given that it operates mainly in the U.K. wealth management sector. SJP is broadening its geographic profile in the Asia-Pacific expatriate community with FUM of £800 million, although the business is facing headwinds from the U.S.-China trade war. Rowan Dartington & Co. Ltd., SJP's specialized division for discretionary fund management has FUM of £2.7 billion and serves as an avenue for product and geographic diversification. Furthermore, the migration of platform to Bluedoor, which now administers 63% of FUM as of Dec. 31, 2018, should support the competitiveness of the firm in client servicing and operational management. Nevertheless, we do not view the inflows from the Asian operations and Rowan Dartington as material enough to diversify SJP's product profile over the next two years, or to merit a stronger competitive position assessment.

As demonstrated through the entry of Schrodgers Personal Wealth and the announcement of the Tilney and Smith & Williamson merger, competitive forces are adding to the already prevailing economic pressures on the sector, in our view. Further competition may come from direct-to-consumer platforms, independent financial advisors who have successfully adjusted their business models after the Retail Distribution Review, or from insurers increasing their own tied-agent workforces. Market pressure has affected SJP's history of delivering record flows and FUM growth, although we note that the performance remains ahead of peers. In 2018, FUM growth slowed to 5.4% versus growth of 20% and 28% in 2017 and 2016, respectively. Similarly, growth in net flows slowed to a more modest rate of 8% in 2018. SJP enjoyed net flow growth of 40% and 17% in 2017 and 2016, respectively. Positively, SJP has continued to report net inflows for first-half 2019 in the difficult market. Nonetheless, the results show a similar slowdown trend with net inflows of £4.4 billion compared with £5.2 billion at first-half 2018. However, the wealth manager expects to be able to leverage on the strengths of its business model to deliver their target gross inflow growth of 15% per year and generate net inflows of £6 billion-£10 billion annually over 2019-2020.

Chart 1

SJP Net Inflows And Number Of Qualified Advisors



Source: S&P Global Ratings.

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Financial Risk Profile

Under our proprietary risk-adjusted capital model, SJP is capitalized at the 'AAA' confidence level due to relatively low risks from unit-linked operations. However, we consider that the model somewhat overstates the capital adequacy and therefore assess the overall capital position as strong. This reflects our view that:

- The absolute size of solvency net assets is relatively small compared with that of other U.K.-based insurers;
- The quality of total adjusted capital (our view of loss-absorbing capital) 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 expanding 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 in recent years means that about as of year-end 2018, 35% of FUM does not currently generate cash profits, but is 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 80% that SJP has signaled to the market.

The group manages its balance sheet 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' rated money market funds. Within the group's back book there are no investment guarantees, which limits SJP's exposure to interest-rate risk. In addition, the group has reinsured the majority of its small back book of protection liabilities.

Our assessment is supported by relatively moderate fixed-charge costs. The financial leverage ratio stood at about 33% as of year-end 2018. We note that the guaranteed loans (£137.5 million at year-end 2018) are of sound credit quality with modest default rates. Excluding the guaranteed loans, the leverage ratio is 26% at end-2018. We consider the £70.0 million of 'AAA' rated securitised loan notes issued during 2018, which has no recourse to SJP, as operational leverage. SJP's fixed-charge coverage is about 8x and, based on our earnings expectations, we expect it will remain at this level over 2019-2021.

Table 2

St. James's Place U.K. PLC--SJP Financial Leverage and Coverage			
(Mil. £)	2018	2017	2016
Debt			
RCF Facility Size	340.0	340.0	250.0
RCF Facility Drawn	164.8	165.8	231
RCF Facility Undrawn	175.2	174.2	19
Private Placement 1	50.0	50.0	50.0
Private Placement 2	63.8	64.1	0
Guaranteed loans drawn	137.5	143.8	185.5
Operating lease liability	83.2	91.5	83.7
Total Debt	499.3	515.2	550.2
Interest			
Total RCF Facility	4.1	4.2	4.7
RCF Facility Drawn	3.3	3.3	4.6
RCF Facility Undrawn	0.8	0.8	0.1
Private Placement 1	1.3	1.3	1.3

Table 2

St. James's Place U.K. PLC--SJP Financial Leverage and Coverage (cont.)			
Private Placement 2	1.6	1.6	0.0
Operating lease expense	20.8	17.2	11.8
Total Interest	27.9	24.3	17.8
EBIT	239.8	210.4	158.4
Shareholders equity	1,019.0	1,059.0	1,075.6
EBIT Fixed charge coverage (x)	8.6	8.7	8.9
Financial Obligations to EBIT (x)	2.1	2.4	3.5
Financial Leverage (Debt / Debt + Shareholders equity) (%)	32.9	32.7	33.8

Other Key Credit Considerations

Governance

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

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.

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.

Group support

Our analysis is based on the consolidated group's financial and business profile. Since St. James's Place U.K. PLC is the main regulated operating entity and comprises of majority of the group's revenue and capital, we assess it as core to the combined SJP group.

Ratings Score Snapshot

Business Risk Profile	Satisfactory
Competitive position	Satisfactory
IICRA	Low Risk
Financial Risk Profile	Strong
Capital and earnings	Strong
Risk exposure	Moderately low
Funding structure	Neutral
Anchor*	a-

Modifiers	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Financial Strength Rating	A-

*This is influenced by our view of St. James's Place U.K. PLC's financial strength compared with most of its 'A-' rated peers.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Appendix

Table 3

St. James's Place U.K. PLC--Credit Metrics History

(Mil. £)	2018	2017
S&P Global Ratings capital adequacy*	Excellent	Excellent
Funds Under Management	95550	90750
Total shareholder equity	1019.1	1058.1
Gross premiums written	46.5	49.9
Net premiums written	16.9	20.3
Net premiums earned	16.9	20.3
Reinsurance utilization (%)	63.7	59.3
EBIT	239.8	210.4
Net income (attributable to all shareholders)	173.5	145.9
Return on shareholders' equity (reported) (%)	16.7	14.0
EBIT fixed-charge coverage (x)	8.6	8.7
Financial obligations / EBITDA adjusted	2.1	2.4
Financial leverage (%)	32.9	32.7

Ratings Detail (As Of December 4, 2019)*

Operating Company Covered By This Report

St. James's Place U.K. PLC

Financial Strength Rating

Local Currency

A-/Stable/--

Issuer Credit Rating

Local Currency

A-/Stable/--

Ratings Detail (As Of December 4, 2019)*(cont.)

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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