

Research

St. James's Place U.K. PLC

Primary Credit Analyst:

Simran K Parmar, London (44) 20-7176-3579; simran.parmar@spglobal.com

Secondary Contact:

Robert J Greensted, London + 44 20 7176 7095; robert.greensted@spglobal.com

Research Contributor:

Anisha Tole, CRISIL Global Analytical Center, an S&P affiliate, Mumbai

Table Of Contents

Credit Highlights

Outlook

Key Assumptions

Key Metrics

Business Risk Profile

Financial Risk Profile

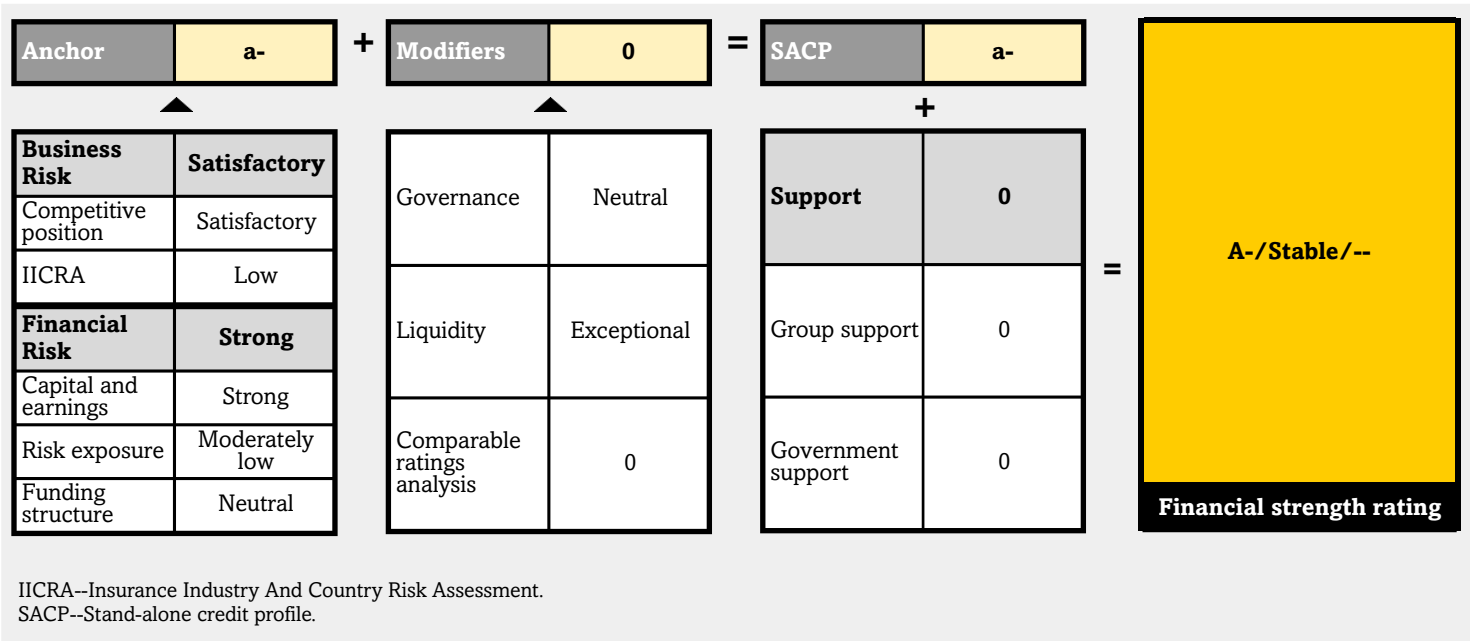
Other Key Credit Considerations

Ratings Score Snapshot

Related Criteria

Appendix

St. James's Place U.K. PLC



Credit Highlights

Overview	
Key strengths	Key risks
Track record of increasing net inflows and good operating performance	Earnings and growth exposure to ongoing economic risks and market volatility
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
	Limited sector product and geographic diversity

S&P Global Ratings expects net inflows and fees in 2020 will reduce due to ongoing market volatility and economic risks but St. James's Place U.K. PLC (SJP) will maintain its financial position. The heightened risks from market volatility and uncertain macroeconomic environment will likely reduce earnings for 2020. However, we expect that SJP will prudently manage cash flows relative to financial obligations and risks.

S&P Global Ratings believes that the group's 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.

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

Outlook: Stable

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;
- The group faces pressure on its business model, either due to regulatory changes or reputational damage;
- Retention rates fall to materially less than 90% of average funds under management (FUM), 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, 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 or material, profitable growth in Asia-Pacific.

Key Assumptions

- We project that the U.K. economy will contract by 6.5% this year, although the degree of uncertainty attached to our forecasts is higher than usual.
- The U.K.'s fiscal deficit will widen to nearly 12% of GDP in 2020. Our projection incorporates lower revenue intake and the government's measures related to COVID-19.
- Our projections are sensitive to assumptions on how long the lockdown and social distancing measures will continue.

For more information, see "United Kingdom 'AA/A-1+' Ratings Affirmed; Outlook Stable," published April 24, 2020, on RatingsDirect.

Key Metrics

Table 1

St. James's Place U.K. PLC--Key Metrics					
--Fiscal year ended Dec. 31--					
(Mil. £)	2021f	2020f	2019	2018	2017*
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent	Extremely strong
Net income	>140	>50	147	174	146
Reported surrender rates (%)	~4	~4	4	4	4
Financial leverage (%)	~40	~40	38	34	34
Fixed charge coverage	>18x	>4x	19	22	19

*For 2017, capital adequacy is as per old criteria nomenclature. f--Forecast.

Business Risk Profile: Satisfactory

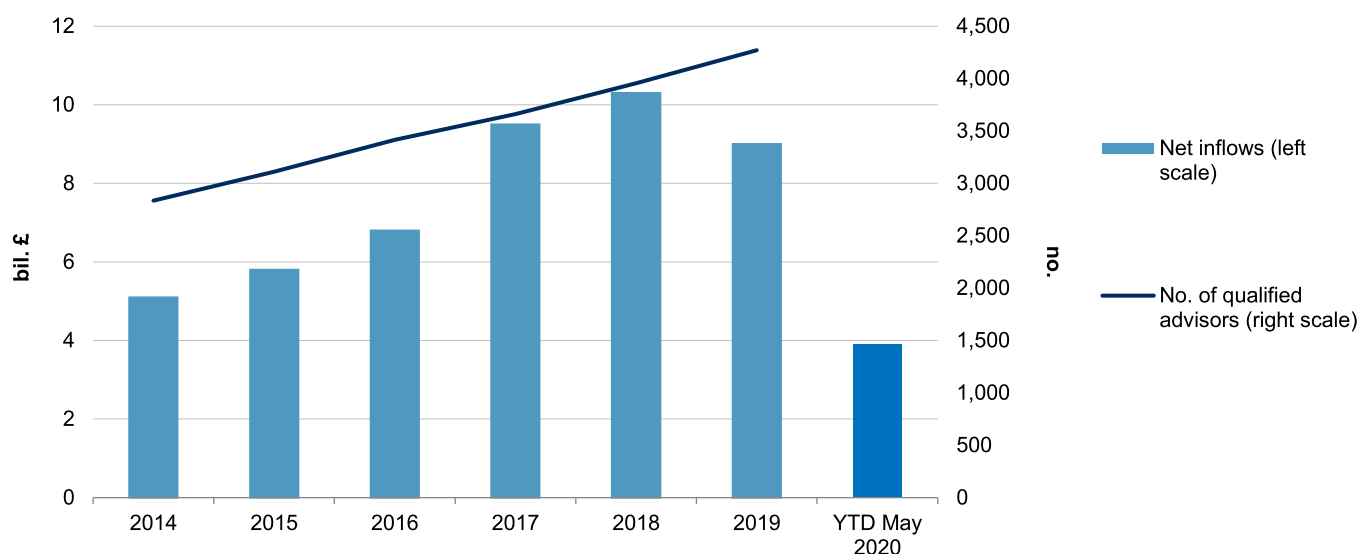
The group's competitive position is supported by its well-established position in the U.K. wealth management sector and strong results in net flows and earnings, despite increasing scrutiny from regulation. SJP draws on its partnership and long-term relationships with clients to achieve robust new business flows. While the number of qualified advisers increased 8% in 2018, the gross inflows per qualified adviser, which is an important driver for the group's growth model, was flat. Our assessment of SJP's competitive position is supported by low surrender rate on average FUM, which was 4.6% for first-quarter 2020 and 4.0% in 2019 (4.1% in 2018). We expect the group will maintain surrender rates of about 4.0% over 2020-2022.

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 vulnerable to reputational risks inherent in the advice and outsourcing model. We expect the increased regulatory scrutiny of asset management fees and advice services might lead to pressure on SJP's operating performance, but overall the group will 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. The group is broadening its geographic profile in the Asian expatriate community with FUM of £934 million as of December 2019, although the sector is facing headwinds from the Hong Kong protests and U.S.-China trade war. Rowan Dartington & Co. Ltd., SJP's specialized division for discretionary fund management, has FUM of £2.8 billion and serves as an avenue for product and geographic diversification. Furthermore, the migration of platform to Bluedoor 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 Schroders 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 could come from direct-to-consumer platforms, independent financial advisors, or from insurers increasing their own tied-agent workforces. The market volatility has added pressure to SJP's history of

delivering record flows and FUM growth, although performance remains ahead of peers'. As of May 31, 2020, the closing FUM stood at £112.6 billion, down from £117.0 billion at year-end 2019 but better than the £105.8 billion at May 31, 2019. Growth in net flows slowed to a more modest 9% of opening assets under management in 2019. SJP enjoyed net flow growth of 40% and 17% in 2017 and 2016, respectively (see chart 1). Positively, the group has continued to report net inflows as of May 31, 2020, in the challenging market. However, the wealth manager expects to leverage the strengths of its business model to deliver their target gross inflow compound growth of 15% per year over 10 years.

Chart 1**St. James's Place U.K. PLC--Net Inflows And Number Of Qualified Advisors**

YTD--Year-to-date. Source: S&P Global Ratings.

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

Financial Risk Profile: Strong

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 believe 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 (see chart 2).
- The quality of total adjusted capital (our view of loss-absorbing capital) relies heavily on the present value of future profits--one of the softer forms of capital for which we give credit.

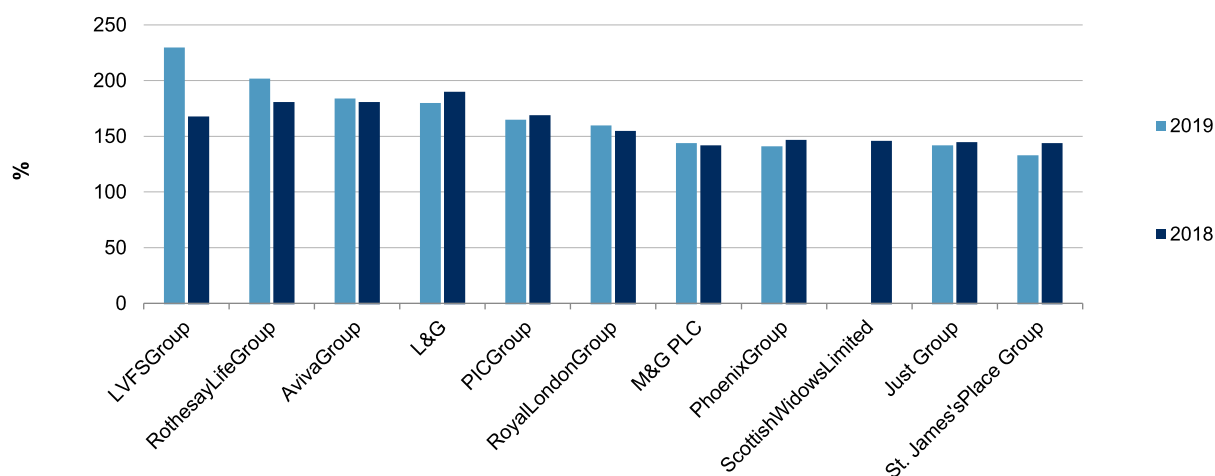
- SJP is exposed to operational and reputational risks that our model might not adequately capture.

However, we believe that SJP's capital position will be sustained by the group's 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 then, assets held on behalf of policyholders are cash-generative. SJP's strong growth in recent years means that about as of year-end 2019, about 34% of FUM does not generate cash profits, but is likely to do so over the next six years. We believe that the maturing back book and the group's limited capital needs will support the financial position.

SJP manages its balance sheet conservatively and we believe that it is likely to continue doing 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.

Chart 2

Regulatory Solvency Ratios Of U.K. Life Insurers



Solvency ratios on a regulatory basis. Source: S&P Global Ratings.

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

Our assessment is supported by relatively moderate fixed-charge costs. The financial leverage ratio stood at about 38% as of year-end 2019. We understand that the loans are of sound credit quality with very low default rates and the guarantees have never been called. Excluding the guaranteed loans, the leverage ratio is 29% at year-end 2019. We consider the £70.0 million of 'AAA' rated securitized loan notes issued during 2018, which has no recourse to SJP, as operational leverage. SJP's fixed-charge coverage is about 19x.

Table 2

St. James's Place U.K. PLC--SJP Financial Leverage And Coverage		
--Fiscal year ended Dec. 31--		
(Mil. £)	2019	2018
Debt		
RCF facility size	340.0	340.0
RCF facility drawn	170.0	161.0
RCF facility undrawn	170.0	179.0
Private placement 1	50.0	50.0
Private placement 2	63.8	63.8
Guaranteed loans drawn	181.5	163.7
Operating lease liability	118.6	83.2
Total debt	583.9	521.7
Interest		
Total RCF facility	4.6	4.4
RCF facility drawn	3.7	3.5
RCF facility undrawn	0.8	0.9
Private placement 1	1.4	1.4
Private placement 2	1.6	1.6
Operating lease expense*	2.9	2.9
Total interest	10.5	10.4
EBIT	197.6	222.3
Shareholders equity	947.2	1,019.0
EBIT fixed charge coverage (x)	18.8	21.5
Financial obligations to EBIT (x)	3.0	2.3
Financial leverage (Debt/debt+shareholders equity) (%)	38.1	33.9

*The 2018 operating lease expense is an S&P Global Ratings estimate. RCF--Revolving credit facility.

Other Key Credit Considerations

Governance

We consider the group's consistent strategy a strength, where it focuses on increasing 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 receive financial support from the group to set up and maintain their businesses. These individual loans to agents are secured on the income streams that their advice generates, as well as, ultimately, their other assets. We understand from the company that the default rates are extremely low. Overall, this, combined with SJP's cash

generation and liquid assets, means we view these bank loans as bringing limited liquidity risk.

Group support

We base our analysis on the consolidated group's financial and business profile. SJP is the main regulated operating entity and constitutes the majority of the group's revenue and capital, so we assess it as core to the combined group.

Ratings Score Snapshot

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. IICRA--Insurance Industry And Country Risk Assessment.

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					
	--Fiscal year ended Dec. 31--				
(Mil. £)	2019	2018	2017	2016	2015
S&P Global Ratings capital adequacy*	Excellent	Excellent	Extremely strong	Extremely strong	Extremely strong

Table 3

St. James's Place U.K. PLC--Credit Metrics History (cont.)					
--Fiscal year ended Dec. 31--					
(Mil. £)	2019	2018	2017	2016	2015
Funds under management	116,990.0	95,550.0	90,750.0	75,310.0	58,610.0
Total shareholder equity	947.2	1,019.1	1,059.0	1,075.6	1,095.1
Gross premiums written	42.6	46.5	49.9	52.2	54.7
Net premiums written	15.8	16.9	20.3	20.7	22.1
Net premiums earned	15.8	16.9	20.3	20.7	22.1
Reinsurance utilization (%)	62.9	63.7	59.3	60.3	59.6
EBIT	197.6	222.3	196.5	159.0	166.5
Net income (attributable to all shareholders)	146.6	173.5	145.9	112.2	202.2
Return on shareholders' equity (reported) (%)	14.9	16.7	14.0	10.3	19.2

*The operating lease liabilities and expenses prior to 2019 are an S&P Global Ratings estimate.

Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	Very Strong	Strong	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of July 10, 2020)*

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/--

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.

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.