

PrimeStone

Copy to The Board of Directors

St. James's Place plc

London, December 11th, 2020

Dear Directors of St. James's Place plc,

Thank you for your time in meeting us and your letter of response dated 24th November. We have welcomed the productive and constructive dialogue over St. James's Place ("SJP")'s cost base that we have had with you in recent weeks. In summary, we are pleased to hear and read that you:

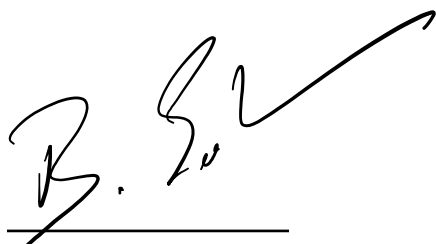
- 1) Expressed 'fundamental alignment' with PrimeStone;
- 2) Are focused on creating shareholder value and consider the missing operating leverage as an important factor in this;
- 3) Recognise the importance of carefully managing SJP's cost base;
- 4) See an opportunity to optimise your operating leverage following the completion and introduction of the Bluedoor back-office administration platform; and
- 5) Are currently reviewing SJP's organisational design and operating model.

Whilst we think the above topics are so substantial in nature that they merit a separate discussion with investors such as via a dedicated Capital Markets Day, we nonetheless very much look forward to you presenting your cost optimisation objectives and action plan at the upcoming annual results and investor presentation on the 25th February 2021.

PrimeStone is particularly excited about plans to "re-create" operating leverage at SJP. We believe, as we outlined in our letter on 26th October, that St. James's Place has ample opportunity to do so. We would very much like this to be translated into ambitious and tangible objectives that lead to positive results for all stakeholders.

We sincerely hope your efforts will allow St. James's Place to translate strong continued growth into value for shareholders. As we have emphasised on multiple occasions, growth and profitability should not be a trade-off for SJP – profitable growth is achievable and is what shareholders are looking for.

Yours sincerely,



Benoît Colas



Damian Hahnloser

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PrimeStone

The Board of Directors

St. James's Place plc

London, October 26th, 2020

Dear Chairman and Members of the Board,

PrimeStone Capital LLP ("PrimeStone" or "we"), through the funds we advise, started investing in St. James's Place plc ("SJP" or "the Company") last year and today owns c. 1.2% of the issued share capital.

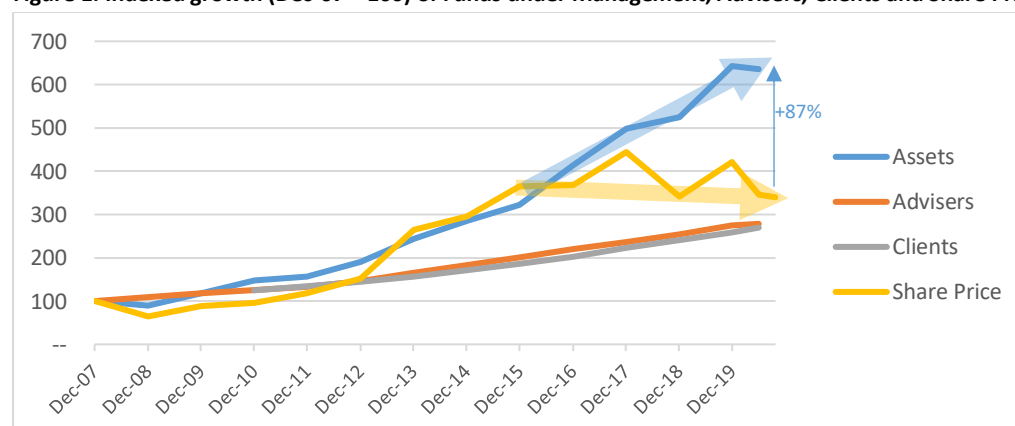
PrimeStone focuses on making long-term investments in quality companies. Our team has extensive experience investing in and sitting on boards of both private and publicly-listed companies. Prior to each investment made, we undertake months of detailed analysis and due diligence to ensure an in-depth understanding of a company and its stakeholders. We then aim to become trusted partners by taking a collaborative, constructive and fact-based approach in our dialogue with companies.

By way of background, prior to founding PrimeStone, the three Managing Partners started their careers at The Boston Consulting Group and subsequently spent more than 15 years at The Carlyle Group, founding and managing the firm's European Private Equity operations. This business successfully invested more than \$12bn of equity in 60 buyout transactions under their leadership.

Summary of our position and recommendations for SJP

SJP is fundamentally a strong business that has been delivering great value for clients, partners, employees and even the regulator for many years. The SJP business model has yielded best-in-class growth and retention of advisers, clients and assets. Unfortunately, however, it has failed to deliver meaningful value for shareholders over the last five years. This is especially disappointing given that client assets have doubled over this time.

Figure 1: Indexed growth (Dec-07 = 100) of Funds under Management, Advisers, Clients and Share Price¹



PrimeStone has conducted significant research and analysis of SJP over the past year. This in-depth analysis has led us to believe that the Company's current share price does not reflect the full value of the strength of its business model, its leadership position or its long-term growth potential. Moreover, we have identified that this underperformance is mostly due to the suboptimal management of SJP's cost base.

¹ Client numbers are only reported since 2010. They have been indexed at the same level as adviser numbers at the end of 2010.

After several exchanges with management and having now attended several investor calls during all of which this topic was raised by either ourselves or other shareholders, without ever being addressed head on, we have decided to share our analyses with you as well as our fellow shareholders. This should hopefully help you and others come to the realisation that tremendous value can be created and trigger a productive change in mind-set whereby the focus on shareholder value regains its importance.

We believe that SJP has the potential to more than double its share price once the Company realises its full profit potential.

We are therefore asking the Board of St. James's Place to launch the following initiatives as soon as possible:

- 1. Restore SJP's cost competitiveness and bring its cost base (on a total recurring costs per client and per adviser basis) to the same level as its best-in-class peers, and closer to the level SJP delivered in 2014. The Board should task management with conducting an in-depth cost review and a zero-based budgeting exercise, potentially supported by a renowned consulting firm experienced in such efforts;**
- 2. Set ambitious cost reduction objectives and an appropriate timeline for their implementation and communicate them to shareholders. Ideally, this should be presented and discussed at an Investor Day;**
- 3. Regularly report on achievements vs. these objectives; and**
- 4. Improve financial communication to shareholders by more clearly reporting on revenues, costs, margins and important KPIs.**

Analysis of SJP share price performance

Despite the exceptionally strong and consistent compounding of advisers, clients and assets, SJP has unfortunately fallen short of delivering meaningful shareholder value over the last five years:

- SJP's share price is down 7% since the end of 2015; The TSR has only been 2% annualised and below that of the FTSE 100. Over the same period FuM have grown 18% p.a. and income² by 13% p.a..
- SJP's market capitalisation as a percentage of FuM is at an all-time low of 4.3%, 32% below the historical average and less than half what it was five years ago;
- SJP shares have significantly underperformed those of most of its publicly listed peers; and
- SJP's closest peers with similar asset growth and retention rates trade on earnings multiples that are 50-150% higher than that of SJP. Furthermore, the gap is widening.

In the next few sections of this letter, we elaborate on our analysis of the SJP business, sources of cost inflation, and what can be done to improve its profitability.

1. St. James's Place has built a strong leadership position in the intrinsically attractive financial advice and wealth management market:

- Largest UK financial advice business serving mass affluent clients with a total of £115bn of Funds under Management across more than 700,000 clients and over 4,300 financial advisors in its partnership

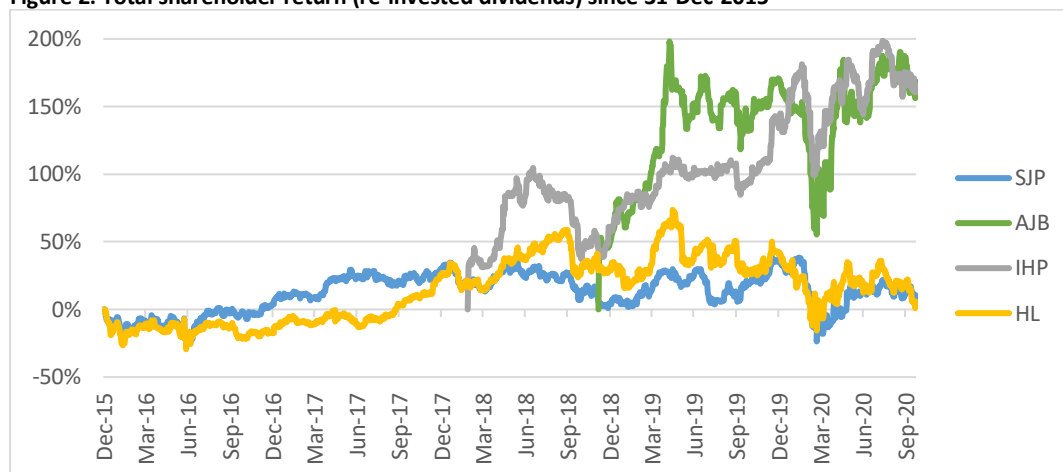
² Sum of Net Income from Funds under Management and Net New Business Margin

- Strong growth track-record with assets, number of advisors and top-line growing at 17.6% p.a., 8.5% and 15.1%, respectively from 2014 to 2019, with good prospects of continued high growth for the foreseeable future
- High levels of advisor and client loyalty with retention of 93% and 97% respectively, which were maintained throughout the Covid-19 pandemic

2. However, SJP's track record of value creation in absolute and compared to peers has been disappointing over the last five years

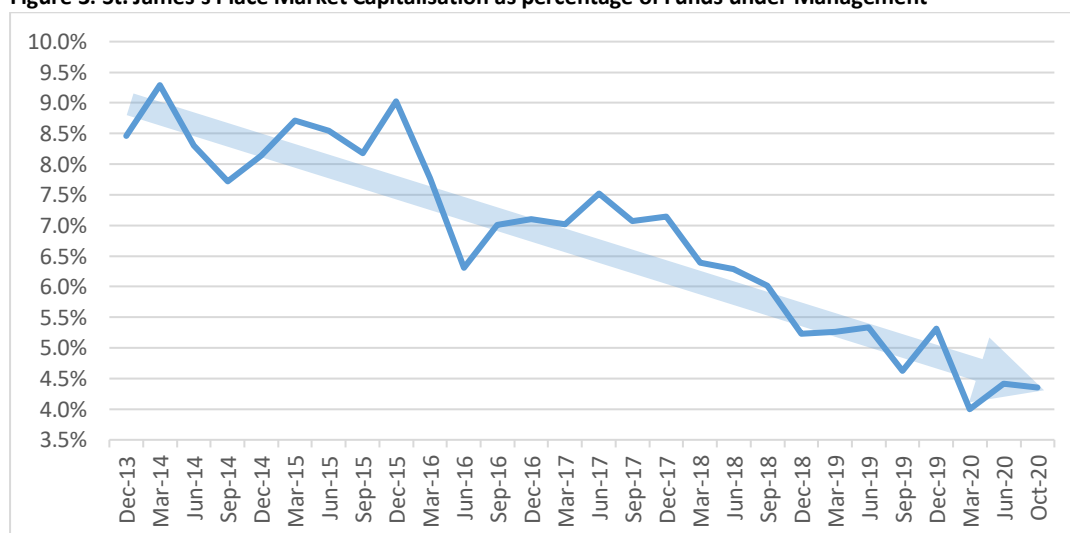
a) SJP's shares have significantly underperformed publicly-listed peers over the last five years

Figure 2: Total shareholder return (re-invested dividends) since 31-Dec-2015³



b) SJP's market capitalisation as a percentage of client Funds under Management has been in constant decline since 2013. It is now at an all-time low, standing at less than half the level of five years ago.

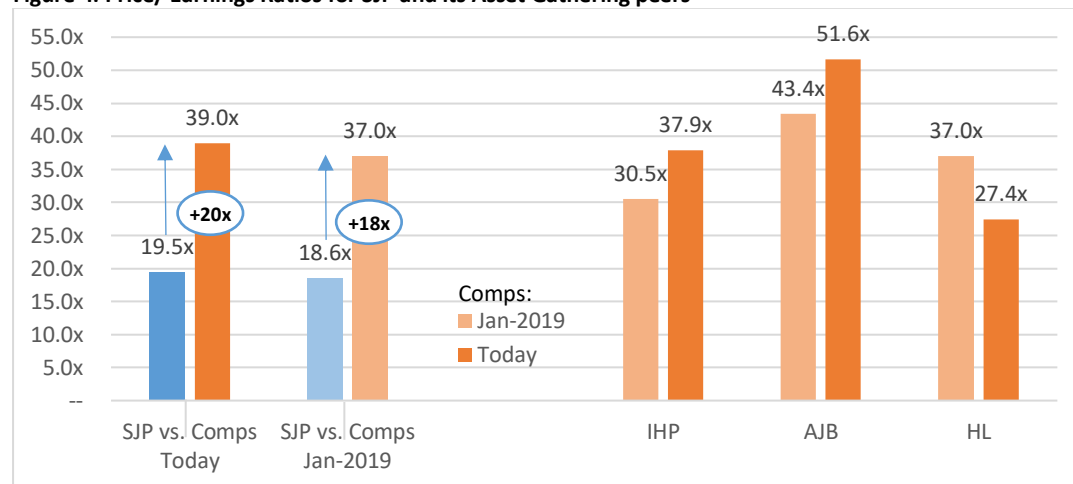
Figure 3: St. James's Place Market Capitalisation as percentage of Funds under Management



³ Source: Bloomberg. AJB = AJ Bell, IHP = Integrafina, HL = Hargreaves Lansdown. Share price as of 23 Oct 2020. AJB and IHP since IPO.

c) SJP trades at a high and growing discount to its peers

Figure 4: Price/ Earnings Ratios for SJP and its Asset Gathering peers⁴



SJP's high retention, consistently strong growth and resilience in the face of the pandemic make it comparable to its above platform peers.

	SJP	Peer Average	Hargreaves Integratin (IHP)	Lansdown (HL)	AJ Bell (AJB)
Customer retention	97.0%	94.7%	96.0%	92.8%	95.4%
Quarterly net flows over the last two years	2.2%	2.3%	2.6%	1.8%	2.6%
YTD Client Assets ⁵	(1.1%)	0.1%	1.0%	(1.7%)	1.1%

In addition to the strong metrics above SJP also faces the least amount of competition and has the benefit of its funds under gestation currently not yet contributing to income. As such its valuation should be anchored to the above "asset gatherers" as opposed to capital-heavy insurance businesses, a much lower growth Quilter, or asset managers that have institutional investors, much lower AuM retention and face significant fee pressure.

3. We primarily attribute the lack of shareholder value creation over the last five years to poor cost management at SJP consisting of: a) a bloated organisational structure; b) excessive hiring; c) excessive pay; and d) mounting losses in Asia with little prospect of a recovery.

a) High-cost culture and bloated organisational structure

SJP has a bloated organisational structure that stems from excessive hiring (see below). Here are some observations derived from our research, including interviews with industry participants and analysis of LinkedIn profiles:

- There are more than 120 employees with a "head of..." job title. We struggle to understand how SJP can have that many departments to be headed.
- The SJP investment team has over 100 investment professionals who do not actually invest, but whose role is to select and monitor 38 external fund managers, with the assistance of two external investment consultants.

⁴ Share price as of 23-Oct-20. Last twelve months (LTM) earnings per share (EPS) for IHP and AJB (31-Mar-20). LTM Post Tax Cash Result per share for SJP (30-Jun-20) and FY21 consensus for HL due to lower run-rate fee margins. 1 Jan 2019 share price uses LTM EPS and Post Tax Cash EPS for 30-Sep-18, 30-Sep-18, 31-Dec-18 and 31-Dec-18, respectively.

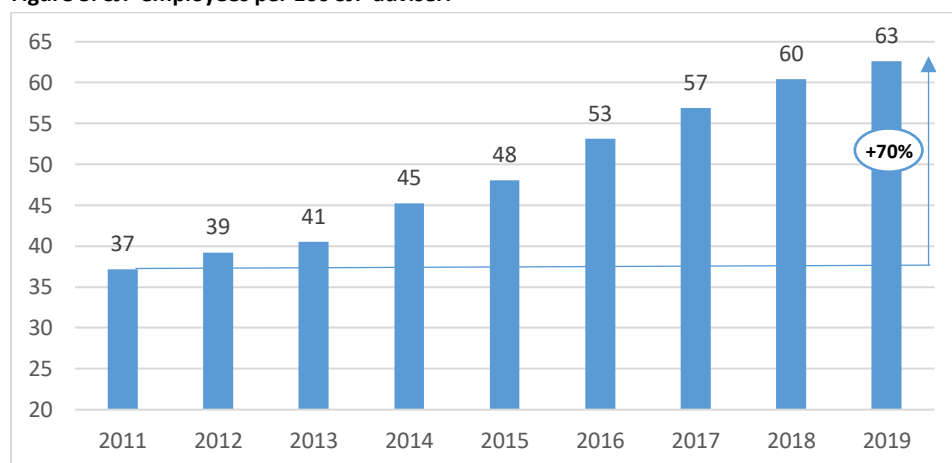
⁵ As of 30-June-2020

- SJP has 300 – 400 employees in technology. For comparison, this is more than twice the size of the IT department at IHP, which manages a much broader platform. And it is more than twice True Potential’s total employee count.
- There are 80+ people in the marketing team despite SJP stating that *“historically around 50% of our new business has come from existing clients with a further 40% from referrals and introductions from them”*.
- The 200+ strong, highly-paid field management team is considered obsolete by many of SJP’s advisers and, as the metrics demonstrate, the vast majority of SJP Partner Practices are well run businesses in and by themselves.
- SJP’s culture was reported to us by many stakeholders we interviewed as one of “don’t do it yourself, hire someone to do it for you.” If true, this of course leads to profit leakage.

It is worth noting that several investors, including ourselves, have tried to get a better understanding of this cost inflation. For instance, we wanted to analyse staff numbers by function. We have not been provided with satisfactory answers but the outside-in perspective definitely raises significant concerns regarding the company’s spending culture.

b) Excessive hiring

Figure 5: SJP employees per 100 SJP adviser.⁶



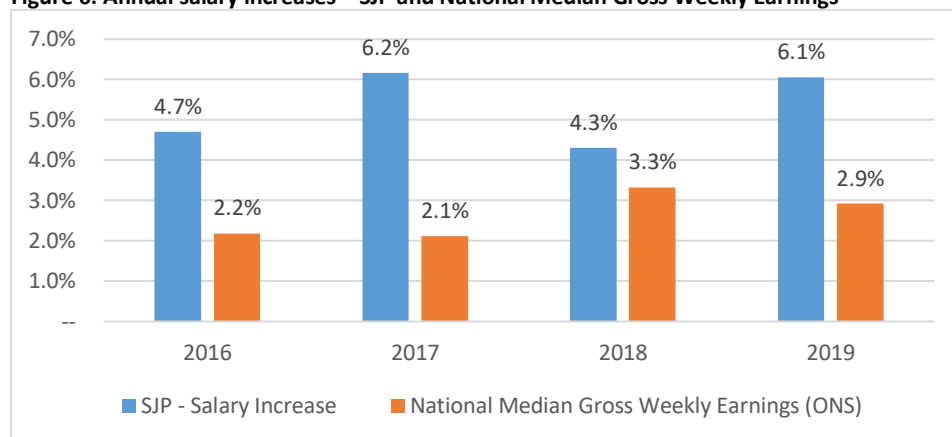
The number of in-house staff supporting the affiliated advisers has increased by 70% over the last eight years. Based on a review of ca. 500 profiles of recent hires at SJP on LinkedIn, we estimate that the increased regulatory requirements are only responsible for a small fraction of this: we have found only 11 profiles in Business Assurance and two in Compliance.

In fact, judging by our research the largest numbers of hires were in administration, business analysis, personal assistants, project management and internal communication. These comprised 26% of all hires that we could see. In addition, we noted 21 hires in marketing and 23 in investment despite, as discussed above, neither marketing nor investments being core functions of SJP; the Partner Practices do the former and SJP’s external fund managers and consultants take care of the latter. Whilst we are limited to publicly available information, and only SJP can know the true picture, we nonetheless consider these trends very concerning.

⁶ Source: Company information using average monthly number of persons employed by the Group during the year

c) Overly generous compensation policy

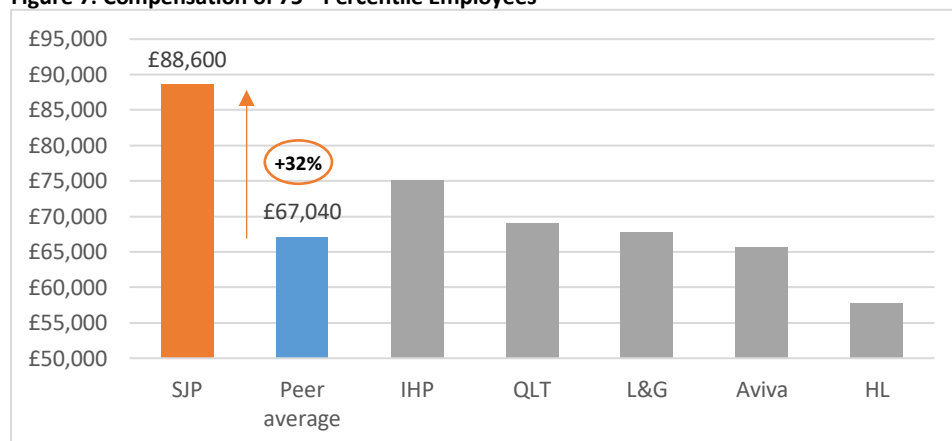
Figure 6: Annual salary increases – SJP and National Median Gross Weekly Earnings⁷



The annual average salary increases at SJP have been consistently 2% to 3% above the national average.

Much higher compensation for SJP employees than competitors and peers

Figure 7: Compensation of 75th Percentile Employees⁸



A quarter of SJP employees (this excludes advisers) earn more than £89,000 per year. This is a staggering statistic, and places over 600 SJP employees among the UK's top 4% earners.

d) Mounting losses in the non-core Asian business

Figure 8: Annual losses (£m) in Asia

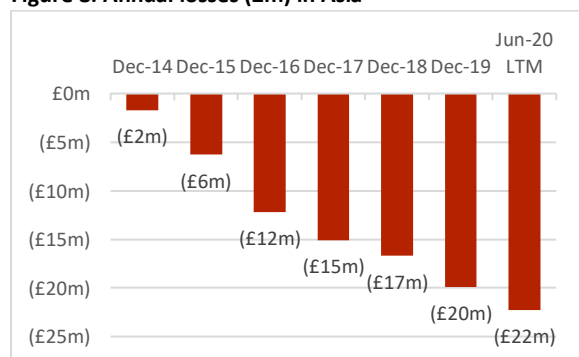
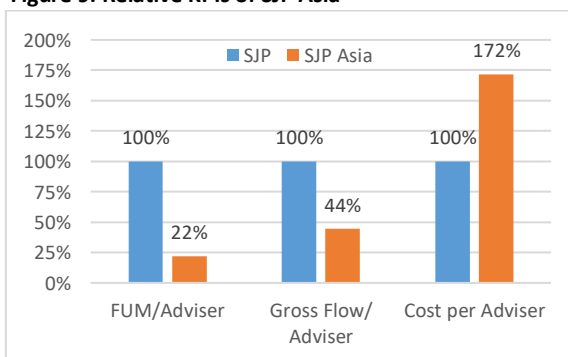


Figure 9: Relative KPIs of SJP Asia⁹



⁷ Source: SJP Annual Report and Office for National Statistics

⁸ Source: Reporting on CEO Pay Ratios in Annual Reports. Includes bonuses and benefits.

⁹ Based on H2-19. £130m of gross inflows in Asia in H2, £934m of assets, 167 advisers at year end and 150 at mid-year. H1 flows were £122m. Cost per adviser calculated as 2019 full-year expense of £23.4m divided by mid-year adviser number.

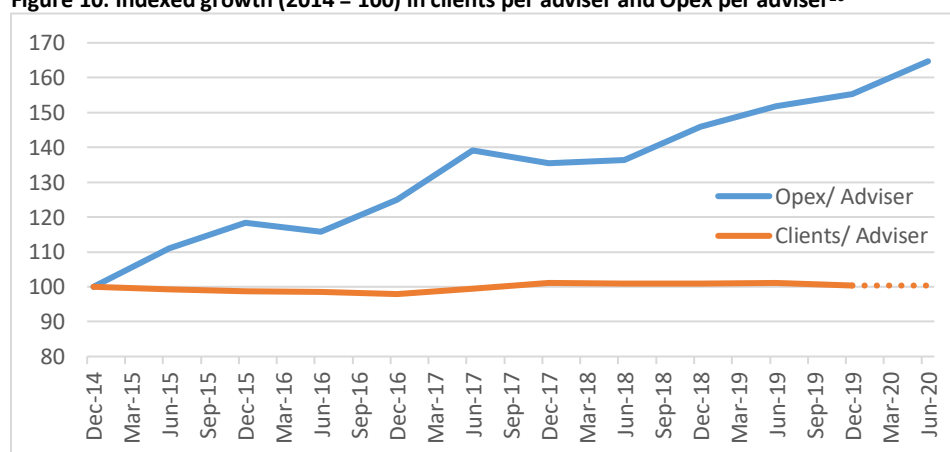
Since acquiring The Henley Group for £12m in 2014, SJP losses in the Asia business have grown every year. There is no path to break-even, however, given the abysmal KPIs compared to the core UK business: assets per adviser are 78% lower, gross flows 56% lower and expenses incurred by SJP 72% higher per adviser. After six years, the business represents less than 1% of assets but annual losses amount to £22m – 10% of the Company’s Post Tax Cash Results.

We fail to find any business rationale supporting the continued substantial investment made by SJP in its Asian operations. Only a lack of attention to shareholder value can explain the continued support given by SJP to this structurally unprofitable activity over so many years. At the current level of annualised losses and current valuation multiple, SJP Asia destroys around £400m to £500m of shareholder value or ca. 10% of the current market capitalisation. Exiting the Asian operations would be highly value accretive.

4. We have therefore witnessed a deteriorating cost position that is now significantly above peers. As a result, SJP’s margins are compressing when those of peers are expanding.

Opex per adviser has outgrown the number of clients per adviser by 65%

Figure 10: Indexed growth (2014 = 100) in clients per adviser and Opex per adviser¹⁰



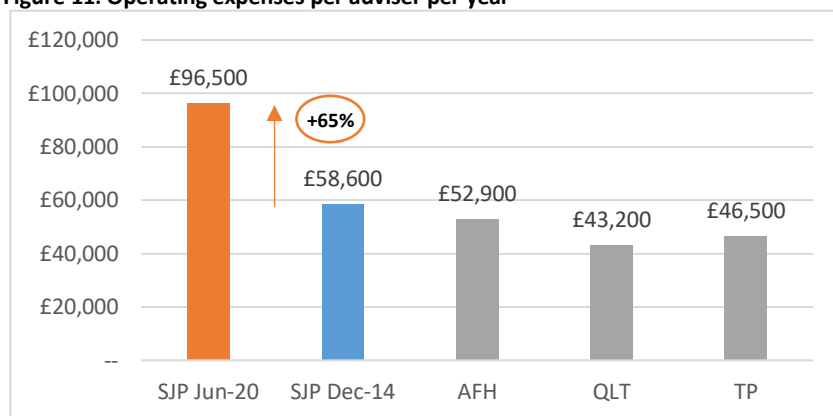
The number of clients per adviser is the key driver of the support work required and, thus, of the cost per adviser. Nevertheless, the operating expenditure per adviser SJP incurs to support them have increased markedly while the number of clients served by each adviser has remained stable since 2014. We estimate that the increased regulatory requirement and FSCS account only for c. 10 percentage points out of the total 65% increase.

Instead of benefitting from scale vs smaller rivals, SJP surprisingly exhibits a scale disadvantage

We have conducted a total cost benchmarking exercise of SJP vs. three relevant UK peers: True Potential, AFH Financial and Quilter Financial Planning. Similar to SJP they provide significant support functions and infrastructure to their advisers. Despite a much smaller scale compared to SJP they incur only 45% to 60% of the operating expenses on a per adviser basis.

¹⁰ Opex is calculated as the sum of Establishment Expenses, Operational Development Expenses, Miscellaneous, Investments, Academy, Regulatory Fees and FSCS Levy, DFM, Asia Losses and Strategic Development Costs grossed up by the statutory tax rate

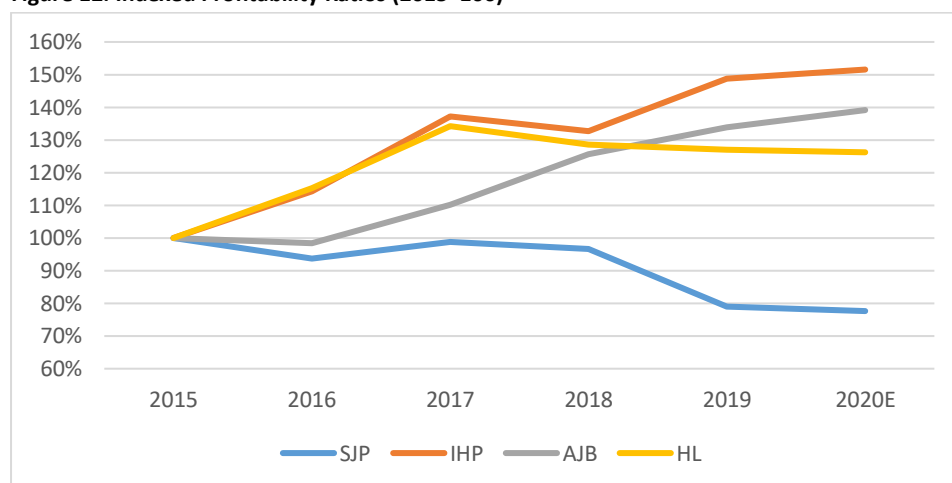
Figure 11: Operating expenses per adviser per year¹¹



SJP is between 2x and 20x larger in terms of adviser numbers than the above peers.

As a result of this cost increase, SJP's profitability has declined by over 20% since 2015 while peers Hargreaves Lansdown, AJ Bell and Integragin have increased theirs thanks to operating leverage. All of this has occurred despite growing in line with peers at 2-3% quarterly net inflow rates.

Figure 12: Indexed Profitability Ratios (2015=100)¹²



This declining profitability is especially disappointing given there should be significant economies of scale in technology, compliance, back-office, administration, fund-manager selection and monitoring. In the CFO's own words: *"I would estimate over two-thirds of our cost base is sort of fixed in nature, it's property and people."* – July 2020

5. Overly complex and incomplete financial communication is a barrier to investor interest and accountability on costs

- Our conversations with sell-side analysts and investors have highlighted investor reporting as having an adverse impact on the attractiveness of SJP as a stock:
 - Analysts and investors struggle to understand SJP's reporting. Unlike its peers, the company does not publish important metrics such as Revenue and EBITDA. It is the only company that states its top-line items, Net Income from FuM and New Business

¹¹ Operating costs for SJP as above. For AFH: Using £9.7m of administrative expenses in H1-20 over average number of advisers equal to £83k/adviser. This also includes para-planning costs, which we estimated at £30,000 per adviser per year and therefore deduct. For QLT: £70m of £100m QFP revenue are network related revenue (formerly Intrinsic) as per Investor Relations. Assuming the network operation to be break-even as per management comments, the costs per restricted (not employed) adviser work out as £43k/yr. For True Potential: £23.6m of 2019 administrative expenses divided by the average number of advisers.

¹² Bloomberg Analyst Consensus for 2020E. Computed as Post Tax Cash Result/ (Net Income from FuM + Net New Business Margin) for SJP and Net Income/ Revenue for peers.

Margin, after deducting taxes and certain costs such as “Other Performance Related Payments”.

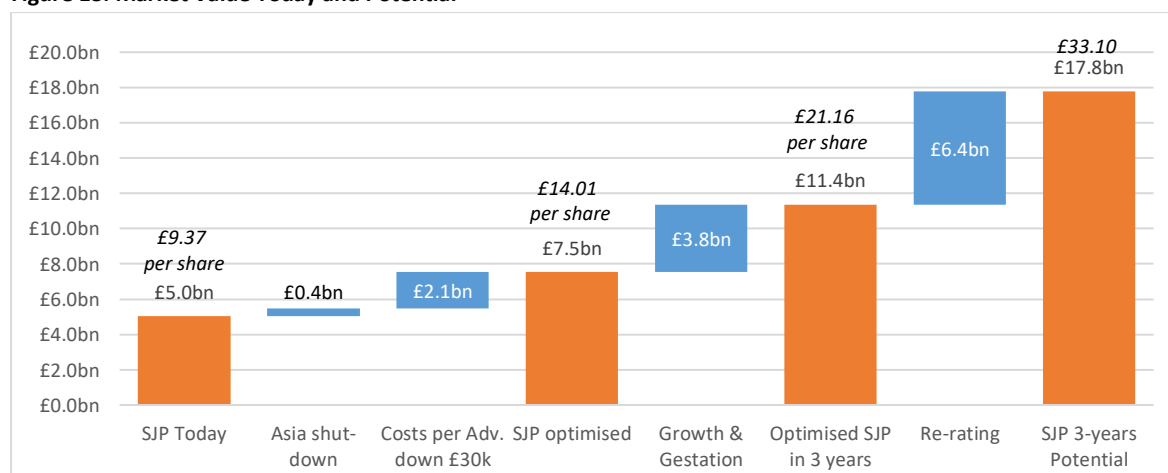
- Costs items are reported in large non-standard buckets (Establishment Expenses, Operational Development Expenses, and Strategic Development Expenses) that don’t exist for other businesses and make it impossible for investors to understand what actual costs are included and what their drivers are.
- Based on the current reporting framework, outsiders cannot identify, monitor or forecast the evolution of straightforward items such staff costs, technology spend, marketing costs ... nor can they calculate important metrics such as EBITDA Margin, Free Cash Flow, or Net Debt/EBITDA.
- There were increasing numbers of questions on operating leverage from analysts at the recent half-year results and the last investor group call hosted by Numis in September. None of these questions were addressed head on and the questions were instead deflected to the topic of growth which, as evidenced above, has unfortunately not been a driver of shareholder value for the last five years.

6. Evaluating the value creation potential

All of the above points to significant value creation potential. At the current £5.0bn market cap, SJP trades at 19x LTM Underlying Cash Result. Generating an incremental £22m of income from exiting Asia would create £420m of value at the current valuation multiple. Reducing the operating expenses per adviser currently incurred by SJP by £30,000 (from £96,000 currently) to be closer to (but still above) its peer group and historical levels would add £110m to the Cash Result. This in turn would be worth £2.0bn at SJP’s current valuation multiple.

With top-line growth from gestation of existing funds and continued inflows, we believe the company’s market value could increase further to £11bn over the next three years. Finally, a re-rating to a 30x multiple LTM Underlying Cash Result as a result of improved earnings growth prospects from demonstrated operating leverage would then result in a £18bn potential market value of the Company, more than three times its current level.

Figure 13: Market Value Today and Potential ¹³



To get back on track to generating meaningful shareholder value, implementing this cost optimisation program together with expanded and simplified financial communications should be **the absolute priority for St. James’s Place.**

¹³ Assumes incremental income from Asia shut-down and lower opex per adviser capitalised at the current trading multiple. Assumes £250m of combined growth in Net Income from FuM and New Business Margin and £50m of increased costs to support this. Capitalised at the current valuation multiple. Potential value based on 30x pro forma underlying cash result.

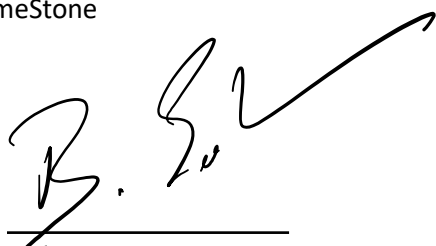
We therefore urge the Board of Directors to discuss our proposal at their next meeting and launch the requested cost review and optimisation project immediately thereafter.

SJP has delivered tremendous value for clients, advisers, employees and management ... but not so much for shareholders over the last five years. It is time for the company to address its high cost base and change its culture in order to deliver its full value-creation potential to long-neglected owners. Far from coming at the expense of other stakeholders, we believe such a change will provide SJP's clients and advisers with a leaner, more agile and more reactive SJP.


We strongly believe in St. James's Place's opportunity and ability to unlock substantial shareholder value and we look forward to the Board communicating its decisions and actions on SJP's cost management. The PrimeStone team has successfully worked with or recommended consultants to drive cost transformations and zero-based budgeting at a number of portfolio companies and we would be glad to introduce a number of firms that could assist the Board.

Yours sincerely,

PrimeStone



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