ISSUED 15 March 2021

DFM SECTOR

Parmenion

FINANCIAL STRENGTH ASSESSMENT

Analysis by AKG Financial Analytics Ltd

Accessible • Comparative • Independent

AKG

ABOUT THIS FINANCIAL STRENGTH ASSESSMENT

This AKG report and the analysis and ratings contained within it provide assessment of financial strength and associated considerations. Financial Strength is focused on the ability of a company to deliver ongoing operational capability in the interest of its customers and in line with their fairly held expectations. AKG's perspective in the assessment of financial strength is wholly that of a customer of a product or service. From that foundation, this analysis is specifically designed to inform financial advisers and assist in their required understanding of a company's operational financial strength.

Given the underlying customer perspective, the financial strength of companies needs to be focused at an operational level, specifically on the company that is effecting the product or service that a customer is selecting. This is important, because from the customer's perspective it is that company that needs to survive in a form that maintains the requisite operational characteristics to meet their fairly held requirements. And it is thus at this level that the selection needs of the customers' advisers must be met. This contrasts to credit rating, which will be undertaken at group or parent company level where investment or debt placement etc. is made.

Further details on how analysis is undertaken is provided at the end of this report and may also be obtained from AKG.

TABLE OF CONTENTS

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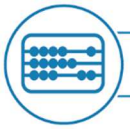
Rating & Assessment Commentary



RATINGS

Overall Financial Strength

Supporting Ratings

	Service	Image & Strategy	Business Performance
Parmenion Capital Partners LLP	★★★★★	★★★★	★★★★

SUMMARY

- Parmenion is currently owned by Standard Life Aberdeen plc (SLA) and is managed within its Aberdeen Standard Investments (ASI) business brand
- In December 2020, SLA announced it was looking to divest Parmenion, under a change in strategy introduced by SLA's new CEO Stephen Bird; on 9th March 2021 it was announced that the business had been sold to Preservation Capital Partners (Preservation CP) for £102m, subject to regulatory approval
- Parmenion operates as both a DFM and a platform, integrating investment management, platform services and technology
- Has remained distinct from the core Standard Life branded platform business (Standard Life Wrap and Standard Life Elevate)
- AUM had risen to £8.2bn as at 31 December 2020 and Parmenion continues to be managed by a team who remain dedicated to the business, with growth plans for the next 4 years under revised strategic priorities
- Termination of Parmenion's service contract for the Virgin Money (VM) joint venture has removed the additional anticipated step change from that component within the overall planned growth; however, preparation for the VM business has increased scale capability for further future growth
- SLA has been a strong parent and will continue to support Parmenion; and the sale to Preservation CP will necessarily include a clear plan to maintain capital adequacy
- Level of client assets means that in 2021 Parmenion meets definition of Significant IFPRU firm status

COMMENTARY

Financial Strength Ratings

Parmenion maintained positive net asset flows during 2019 which in turn led to increased revenue in Parmenion Capital Partners LLP (PCP) for the year. Market conditions were challenging and outflows in 2019 were higher than in previous periods, but Parmenion nonetheless saw its market share of overall AUM increase.

PCP reported a £4m loss from trading in 2019, due to a combination of factors (see Business Performance below) but widely reflective of the investment to support the VM JV and an overall group focus on growing Parmenion's AUM. The

underlying profit performance in PCP was otherwise positive. SLA provided capital to more than cover these losses, and all measures of regulatory capital adequacy and liquidity were reported to be satisfactory at the 2019 year end.

After a promising start to 2020, the COVID-19 pandemic disrupted the business in Q2, stalling asset flows, and whilst Q3 saw more positive flows and commensurate revenue, in Q4 2020 the wealth management contract for the Virgin Money joint venture was terminated. This led to significant redundancies, following two years of staffing up for projects that delivered the increased scale capability.

Many positives were taken from 2020, in that PCP was able to show operational resilience, maintaining communication and service levels. The VM venture required / allowed Parmenion to make many infrastructure improvements which it will continue to benefit from. Also significant is that earlier in 2020, the management had undertaken a detailed financial review and identified c.£3m of annualised costs to remove from the business, prior to the VM strategy change.

In respect of Capital Resources and the CRR, all measures for PCP as required by the FCA are included within SLA's Pillar 3 Market Disclosures on a consolidated basis and at group level were considered entirely satisfactory by AKG.

SLA itself continues to perform well in financial terms despite the challenging market conditions; the focus here is very much aligned to the strategic aspirations of the group, driving operational efficiencies from merger integration and business simplification, and allowing investment for growth across the propositions. SLA continues to have investments in India and a joint venture in China, both providing access to fast growing markets, and retains a stake in Phoenix Group Holdings plc (PGH, Phoenix) which had an estimated value around £1bn as at August 2020. SLA has also strategically sold down its shares in associates during 2019 and 2020, which has helped maintain dividend payment levels and solvency surplus. The transformation into a capital light business following the insurance sale is reflected in its prudent capital resources figures of £2.9bn against a requirement of £1.1bn, a considerable surplus of £1.8bn as at June 2020.

Following a strategic review by the new CEO of SLA, Parmenion was put up for sale and in March 2021 its acquisition by private equity firm Preservation CP was announced. With Preservation CP stating that it recognised many opportunities for Parmenion in its next stage of growth.

SLA will continue to support Parmenion up until regulatory approval of the sale to Preservation CP is given; a clear plan to maintain capital adequacy (to meet FCA change of control requirements at least) will be a necessary part of the transaction / approval process.

Service Rating

The Parmenion proposition has a positive track record and a reputation for strong customer service, and articulates a very client centric approach to administration. This has been regularly demonstrated by the award of numerous service related external accolades in tandem with its own positive internal service metrics.

Image & Strategy Rating

Parmenion has managed to maintain its original niche strategy relative to other market participants and a positioning as a digitally powered investment business enabling a mass-affluent customer segment, notwithstanding continued growth. Whilst distinct in terms of image and functions, Parmenion currently sits within ASI, the brand of the investment businesses of Aberdeen Asset Management and Standard Life Investments, but will come under the ownership of Preservation Capital Partners on regulatory approval of the sale announced on 9 March 2021.

Although centralised investment propositions (CIP) are available through many platforms, Parmenion's directors consider its 'unique, integrated offering' makes it easier for financial advisers to facilitate this. It considers itself a leader in the market in terms of providing efficient, technology-led services which it states to be one of its core disciplines alongside the platform and DFM capabilities.

SLA had previously outlined strategic objectives for Parmenion as leading the group's way in the provision of personalised digital wealth management. Continued strong support of the Parmenion management team in delivering growth and becoming a 'national champion' is a key element voiced by Preservation CP in its acquisition strategy. Within increased strategic planning work in general by Parmenion, further adviser market segmentation has been undertaken to appropriately target and meet a range of different requirements that fit with the business's proposition. Data warehousing and data mining for advisers - providing data back to advisers to aid them in segmentation - is resulting in closer partnership working.

Colleague engagement and monitoring has been a continued key focus for the business in 2020, particularly through the challenges of the pandemic. Allied to this has been an ongoing culture programme consistently promoting values around SLA's stated "achieve, progressive and authentic" characteristics.

Business Performance Rating

2019 saw a year of significant revenue and asset growth for Parmenion Capital Partners LLP (PCP), driven by positive net asset inflows. Staff costs increased significantly by 42% as numbers rose from 141 to just under 200 on average in 2019 to support the Virgin Money JV and other growth. Expenses also increased in part from the businesses of certain subsidiaries being subsumed and costs consolidated. The increase in costs overall was 28% against a total revenue increase of 20% and as such the marginal profit of 2018 was replaced by a £4.0m loss in 2019, covered by a £6.0m injection from parent Aberdeen Asset Management plc (AAM), as the significant corporate member. The investment was strategic given SLA's stated objective at the time of using PCP as its operational platform for the VM JV and future similar projects.

Notwithstanding the overall reported financial performance, PCP has stated for both 2019 and 2020 that its underlying adviser facing business is profitable, given some costs were incurred simply from being part of a large corporate business, and that investment in the operating model to support the Virgin Money business was necessary. Therefore PCP is optimistic about its future performance and ability to manage costs and margins more effectively, subject of course to whatever new ownership awaits it. Whilst 2020 Report & Accounts have not yet been published, they will necessarily include the financial implications of costs incurred in extricating PCP from the Virgin Money JV vis-a-vis redundancies and other one off costs, with SLA providing additional capital as required, but are expected to show a positive underlying performance.

Both Parmenion and the wider SLA group showed a positive response to COVID-19 in terms of maintaining support to clients and staff, and notwithstanding the negative financial impact on SLA results, the business continues to anticipate a degree of market recovery and sees itself as playing a positive role in that going forward. In terms of balance sheet strength and regulatory capital requirements coverage, the group remained strong and increased its surplus regulatory capital to £1.8bn as at 30 June 2020.

Group & Parental Context

BACKGROUND

Standard Life Aberdeen plc was formed in August 2017 from the merger of Standard Life plc and Aberdeen Asset Management plc and is a UK based financial services group focused on providing long-term savings and investment solutions on a global basis. It operates in the UK, Europe, North America, Asia and Australia through brands which currently include Aberdeen Standard Investments (ASI), Standard Life and Aberdeen Standard Capital (formerly Standard Life Wealth) as well as some joint venture brands. It has around 4.5m customers worldwide, and a further 25m through its joint venture in China (Heng An Standard Life) and Associate in India (HDFC Life and HDFC Asset Management Company Ltd - HDFC AMC). SLA has strategically divested some of its holdings in these businesses over time and in the first half of 2020, SLA raised £709m in net cash proceeds through further partial sales.

Aberdeen Asset Management was founded in 1983 and listed in 1991. In 2005, it acquired the UK and US institutional businesses of Deutsche Asset Management, including a unit linked group pension vehicle, renamed as Aberdeen Asset Management Life and Pensions Ltd. Certain parts of Credit Suisse's Global Investors fund management business were acquired in July 2009 and Aberdeen Asset Management also acquired parts of RBS Asset Management in 2010. April 2014 saw the acquisition of Scottish Widows Investment Partnership (SWIP). In January 2016, the purchase of the DFM and platform provider Parmenion Capital Partners LLP, along with its online advice business sister company, Self Directed Holdings Ltd, was completed.

In February 2018, Scottish Widows and Lloyds Banking Group's Wealth businesses announced that they were reviewing their asset management arrangements and that they had therefore given notice to Standard Life Aberdeen plc to terminate their partnership agreements with Aberdeen Asset Management plc. This included long-term contracts for the management of over £100bn of assets. In 2019, AAM received compensation of £140m from LBG following settlement of arbitration proceedings that followed this attempt to terminate these arrangements.

In February 2018, Standard Life Aberdeen plc also announced the sale of its UK and European insurance business and an enhanced long-term strategic partnership with Phoenix Group. At the same time, it confirmed that it would retain its adviser platforms (Wrap, Elevate and Parmenion). The acquisition completed in August 2018 with Standard Life Assurance Ltd acquired by Phoenix, with part consideration by way of shares; SLA's holding of the issued share capital of Phoenix Group Holdings plc was noted as 17.3% in Feb 2021. Aberdeen Asset Management Life and Pensions Ltd was retained by Standard Life Aberdeen plc.

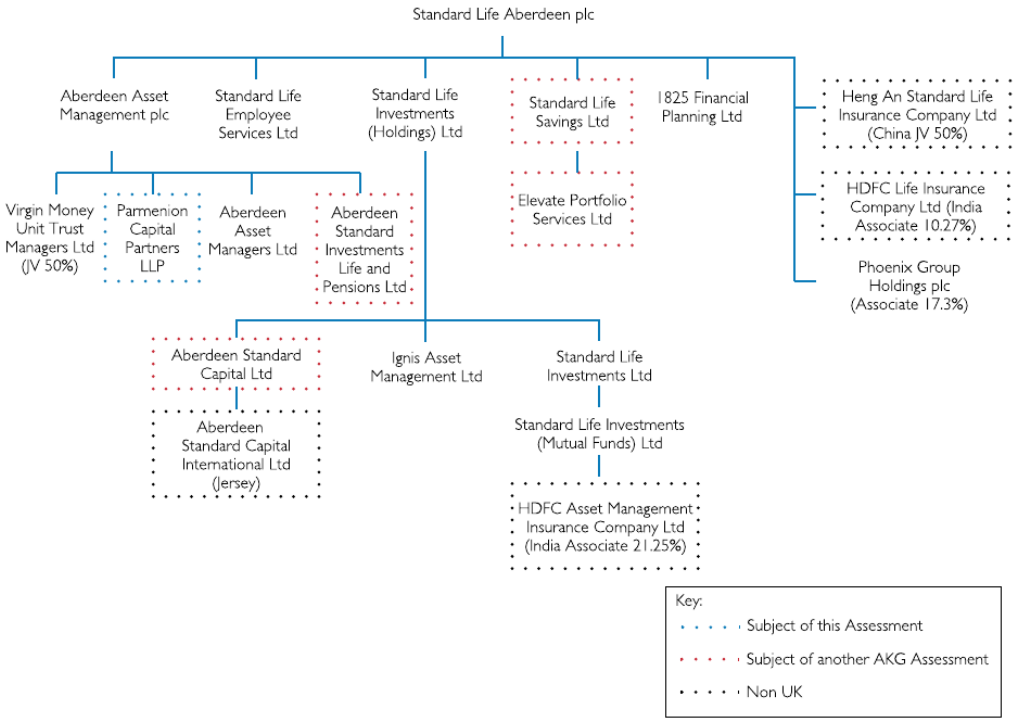
The Parmenion business and brand was positioned within SLA under the ASI brand and within the Wealth proposition (part of the Asset Management, Platforms and Wealth business channel). The brand remained differentiated and the business had all of its own core functions and capabilities, but it had access to a far larger group parent in terms of capital availability in shared areas of expertise and competencies, such as in regulatory change.

In December 2020, SLA announced it was looking to divest Parmenion, under a change in strategy introduced by SLA's new CEO Stephen Bird, and in March 2021 a sale to private equity firm Preservation Capital Partners was announced, at a headline figure of £102m. The acquisition is subject to regulatory approval.

Preservation Capital Partners is a relatively new private equity firm targeting investment in market leading businesses in the financial services sector. Its first acquisition was in 2017 where it invested in Ascent Underwriting, a Lloyds insurance market MGA (managing general agent), via a fund backed by a number of ultra-high net worth family offices and institutional investors. Preservation made several other investments in 2019 and states that it has AUM of US$630m (£480m).

In Q4 2019, Preservation Capital Partners launched its Fund I, a US$400m (£309m) financial services focused fund. The fund is intended to invest in a focused portfolio of three to five platform companies within the asset-light financial services sector across Western and Northern Europe, and closed on 31 July 2020 having been significantly oversubscribed, attracting a diverse group of global investors which included public pension plans, funds of funds and institutional family offices. It seems likely that the acquisition of Parmenion will have been made in line with the strategic focus of this fund.

GROUP STRUCTURE (SIMPLIFIED)



Company Analysis: Parmenion Capital Partners LLP

BASIC INFORMATION

Ownership & Control
Standard Life Aberdeen plc

Year Established
2006

Country of Registration
UK

Head Office
Aurora, Counterslip, Bristol BS1 6BX

Contact
Web: www.parmenion.co.uk

Key Personnel

Role	Name
CEO, Standard Life Aberdeen plc	S Bird
Chairman, Parmenion	G R Marshall
CEO	M R Jennings*
Chief Marketing Officer	S Lyons*
Chief Operating Officer	B A Hill*
Chief Financial Officer	E Thomas*
Chief Risk Officer	T R G Dudley*
MD, Parmenion Investment Management	P J Dalgliesh*
Chief Architect	C B D Falconer*
Chief Distribution Officer	M Steers*
Director of Operations	R White
Head of HR	A Ginn*
Head of Intermediary Distribution	L Barnes
Head of Strategic Partnerships	P Ingram
Head of Customer Success	D Wilcox
Head of Client Service	L Wilkins
	* Executive Committee members

Company Background
Parmenion Capital Partners LLP was founded in the UK in 2006, backed by a number of senior individuals from technology and investment backgrounds. PCP provides risk graded investment portfolios to UK financial advisers and a digital platform branded Parmenion through which to utilise these for their clients. During 2013 PCP transferred two of its functions into wholly-owned subsidiaries, namely its in-house discretionary fund management research into Parmenion Investment Management Ltd (PIM) and its IT development into Sorbin Systems Ltd (Sorbin) - the trade of these subsequently hived up into PCP, see below.

Aberdeen Asset Management plc acquired PCP and its sister company Self Directed Holdings Ltd (SDH), an online advice business, in September 2015. Total consideration was £49.8m comprising cash consideration of £39.7m and contingent consideration of £10.1m in earn-out.

PCP has a small number of wholly owned subsidiaries:

- Parmenion Nominees Ltd - non-trading entity set up to protect client assets for which Parmenion accepts its obligations and liabilities
- Wise Trustee Ltd - non-trading pension trustee company set up to hold the assets on behalf of the members of the Parmenion SIPP

On 1 May 2018, the trade and assets of subsidiaries PIM and Sorbin were hived up into their parent Asander Investment Management Ltd (Asander) and all the trade and assets of Asander hived up further into PCP; all activity is run through PCP bar nominee / trustee services.

During 2019, SDH's trade and assets were hived down into subsidiary Self Directed Investments Ltd in 2019 and SDH was dissolved in January 2020.

OPERATIONS

Governance System and Structure

PCP is a MiFID investment firm, CRR limited license and from January 2021 am IFPRU Significant firm. Amongst its permitted activities are: managing investments, holding client money, safeguarding investments & SIPPs. Upon the completion of the acquisition in January 2016, PCP became a wholly owned subsidiary of Aberdeen Asset Management PLC and Aberdeen Investments Ltd, which are named as the Designated Partners of PCP.

As an LLP, Parmenion has a governing body of designated members which perform an equivalent function to a board of directors. The Chairman of the board is Gary Marshall, SLA's Head of UK and EMEA, providing a board link to the wider group. This governing body is responsible for all major decisions on behalf of the business and overseeing its activities, and delegates responsibility of the management of the firm to the Executive Committee (ExCo). An Executive Risk Committee (ERC), composed mainly of the ExCo members and the CRO, meets bi-monthly to ensure that Parmenion's risk profile, as determined by the board, is being managed appropriately.

All decision making and strategic decision remain within Parmenion's governance structure. Parmenion has developed this structure as the business has matured to ensure effective decision making, empowerment and continued agile delivery. Currently committees consist of: Commercial, Proposition, Customer Delivery, Scalability and Resilience, CASS Governance, Investment Oversight and the SIPP Operating Committee.

Parmenion also has representation on certain AAM Group management and oversight committees to provide and present items and issues for information and discussion only, such as; Group Management Board, Risk Management Committee, Client Assets, and Conduct & Conflicts. The board of SLA states that it 'remains committed to high standards of corporate governance in directing the group's affairs and in its accountability to shareholders. The directors believe these are key to managing the business effectively and delivering shareholder value over the longer term and that SLA complies with all relevant provisions of the UK Corporate Governance Code issued by the Financial Reporting Council'.

The COVID-19 pandemic had an industry wide impact and proved a significant test of operational resilience and adequacy of business disruption / continuity plans. Parmenion responded quickly to the crisis, rolling out already tested remote working across the business, supporting staff as required and minimising disruption for clients. The resource and project requirements to achieve this were directed by the Scalability and Resilience Committee, chaired by the COO and sponsored by the ExCo. Parmenion was commended from both inside the SLA group and externally i.e. Platforum survey ranked Parmenion number 1 in every quarter of 2020 and the business was awarded 5 stars in the Financial Adviser Service Awards 2020.

Risk Management

In terms of compliance, Parmenion operates a standard three lines of defence model, with the 1st line being the day to day operating business of Parmenion and its teams and managers. Risk, Compliance and Oversight (RCO) are the second line, and Group Internal Audit the third. PCP's board sets the business strategy and defines risk appetite thresholds; the ERC defines the risk management process that is used to oversee the risk profile and risk appetite breaches and maintain an ongoing review and improvement of the risk management framework.

RCO consists of compliance advisory, compliance monitoring, financial crime, operational risk and investment oversight functions.

Parmenion's investment risk framework is designed to ensure that volatility rises sequentially with each successive risk grade, and states that its solutions can be mapped to the leading risk profiling tools. It provides to financial advisers a client-specific investment management report to highlight how a portfolio recommendation is aligned to a client's risk mandate, with full details of cost and portfolio construction.

It states further that risk control is at the heart of its research process. For every investment solution, at every risk grade, its investment experts design and build portfolios to deliver the greatest return for the level of risk taken.

Whilst maintaining its own resources, some key large regulatory change projects have seen it liaise with other parts of the current parental group and utilise shared expertise - notably SMCR during 2019, which continues as a focus given Parmenion reaching the status of IFPRU Significant firm in 2021 and the related enhanced regime for SMCR in this respect.

Administration

Parmenion's services are organised with the intention of integrating investment solutions, custody and administration - the aim being to give wealth managers and financial advisers a platform to gather their clients' assets, and hopefully ensure those assets receive proper investment management.

Service is positioned in such a way as to be a natural end stage of the process rather than the start of a separate administrative function. Parmenion also provides online simplified advice technology, Interact, which allows financial advisory firms to broaden their proposition to provide a D2C style solution alongside their traditional proposition.

To support ambitious levels of growth, Parmenion implemented a governance framework to help understand, prioritise, mobilise and deliver change across the entire business, not just for system development.

The business uses Agile as a way of working and in its developments and operates eight scrum teams.

Benchmarks

Parmenion has been recognised widely by the industry, winning accolades such as Defaqto's Gold Award for Service in DFM, Platform and Pension services in 2020 together with Financial Adviser Service Awards 5 Star, Best in DFM and Platform categories; and Moneyfacts Winner for Best Online Service 2020.

In 2019 it was Platform of the Year in the lang cat Advised Platform Awards 2019; was UK Platform Awards Best Platform for Adviser Service; and it was voted number 1 by advisers for platform satisfaction in the under £12bn category, in the UK Adviser Platform guide issued by Platforum in March 2019.

Outsourcing

There are no significant outsourcing arrangements.

STRATEGY

Market Positioning

Aberdeen's original acquisition of Parmenion was part of its strategy to capitalise on advancements in financial technology systems, to grow the Aberdeen Investment Solutions business and become a leader in using technology to provide investment solutions to clients, recognising that this market is moving online. Parmenion, as a FinTech 50 2015 company, was recognised by Aberdeen as being an integrated investment and technology business that made an attractive partner in this respect. Since the acquisition Parmenion has been allowed and further enabled to develop as a 'digitally powered investment business' that is its overall positioning.

As such Parmenion retained its own identity and services following the changes in ownership and SLA has provided additional investment to develop and expand its service. Parmenion has strengthened control over its intellectual property by employing the software developers directly. It is not considered to be distinctly a primary or secondary/tertiary platform, as advisers use it equally in both roles.

Parmenion provides its services to wealth managers and financial planners, not directly to end investors. As at December 2020 Parmenion reported just under 1,000 adviser firms had placed business with them during the year, and opportunities are identified within this segment of adviser firms for further alignment which would support mutual growth.

In December 2020, SLA announced it was looking to divest Parmenion, under a change in strategy introduced by SLA's new CEO Stephen Bird, and in March 2021 a sale to private equity firm Preservation Capital Partners was announced, at a headline figure of £102m. The acquisition is subject to regulatory approval. Continued strong support of the Parmenion management team in delivering growth and becoming a 'national champion' is a key element voiced by Preservation CP in its acquisition strategy.

Proposition

Across the Parmenion business, the following propositions are currently provided:

- Parmenion CIP: full adviser solution, all wrappers, 600+ funds, equities, DFM service and bespoke modelling capability; intuitive design of complex customer relationship and account setup, DFM services and portfolio solutions; STP online new business and servicing processes
- Parmenion Interact: STP online, Simplified Advice, including DFM service offer ('robo-advice'); usually a companion offer for IFAs to handle customer segmentation with risk profiling and appetite for risk tools; auto-escalation to IFA for appropriate client protections
- MyAberdeen (digital upgrade from DST to Parmenion): simplified fully digital positive-affirmation migration from bundled to unbundled ASI funds; full STP online process - with secure App; back-office processes automated - from the point of the customer initiating the transfer to the assets arriving from DST's main register to Parmenion sub-register is circa 15min-1 hour
- MyInvestment digital open-market offering from ASI: simplified fully digital buy and service journeys; full STP online process, including AML and Cash deposit; secure App; 'simple model' portfolios solutions to a target outcome
- MyAberdeen (for Staff): simplified purchase journey for ASI staff to purchase ASI funds; full STP online, execution only, integrated to Group systems for funding, AML and compliance

The Parmenion proposition offers collective investment fund based discretionary management and platform custody services. Parmenion does not take on clients directly or meet with clients but offers investment and client facing solutions. The firm's CIP service programme, with the aim of bringing discretionary investment management to financial intermediaries and through to clients in the mass market/mass affluent bracket, has been the firm's primary driver of progress in the past few years. The proposition allows intermediaries to move their clients' assets easily to Parmenion, with access to tools to undertake fund research and re-balancing.

KEY COMPANY FINANCIAL DATA

Last 3 reporting periods up to 31 December 2019

Capital Resources Disclosures

	Dec 17 £m	Dec 18 £m	Dec 19 £m
Available capital resources			
Capital resources requirement (CRR)			
Excess capital resources			
CRR coverage ratio (%)			

Capital resources information on PCP in isolation is not available; PCP's capital resources are reported within SLA's Pillar 3 Disclosure issued on a consolidated basis for the group. The SLA group reported capital resources of £2.9bn against a requirement of £1.1bn, a considerable surplus of £1.8bn as at June 2020.

Statement of Financial Position

	Dec 17 £m	Dec 18 £m	Dec 19 £m
Assets	14.10	21.27	30.43
Current liabilities	(7.74)	(8.02)	(7.98)
Long-term liabilities	0.00	0.00	(7.19)
Net assets	6.36	13.25	15.27

Statement of Changes in Members' Equity

	Dec 17 £m	Dec 18 £m	Dec 19 £m
Members' equity at start of period	2.84	6.36	13.25
Movement due to:			
Members capital classed as equity	3.50	6.00	6.00
Retained earnings	0.02	0.56	(4.02)
Other	0.00	0.33	0.04
Members' equity at end of period	6.36	13.25	15.27

The total assets £30.4m in the table above represent fixed and current assets and overall increased by £9.2m or 43% in 2019. This was driven by a £6.8m increase in tangible fixed assets, due predominantly to the adoption of IFRS 16 (operating leases) which created a new right of use asset of £7.3m [2018: £nil]. Less a depreciation charge of £1.0m in the year, this added £6.3m to the fixed assets, increasing them to £18.4m [2018: £11.6m].

Within the fixed assets were intangibles of £9.9m, roughly the same as the prior year [£9.8m] and representing capitalised website development costs hived up from subsidiary company Sorbin in 2018, taking into account further investment, additions and amortisation costs in 2019.

The balance of the increase in total assets came from an increase in debtors and prepayments or accrued income, current assets increasing by £2.3m to £12.0m. This included £7.2m of cash, up from £5.6m at the end of 2018.

Current liabilities remained level at around £8.0m and included a £2.0m loan from the group. A new long term liability was created, the balancing item in respect of IFRS 16. Previous commitments under operating leases totalling £8.2m were replaced by a right of use liability of £7.2m (plus a current liability of £0.3m).

New capital of £6.0m was introduced by the group (members' capital classed as equity) and members' equity increased by £2.0m after the loss of £4.0m.

Income Statement

	Dec 17 £m	Dec 18 £m	Dec 19 £m
Revenue	20.30	20.49	25.37
Other operating income	2.81	0.77	0.20
Operating expenses	(23.11)	(23.35)	(29.83)
Operating profit (loss)	**0.00**	**(2.09)**	**(4.26)**
Other gains (losses)	0.02	2.65	0.24
Profit (loss) before taxation and members' remuneration	**0.02**	**0.56**	**(4.02)**
Taxation	0.00	0.00	0.00
Profit (loss) after taxation	**0.02**	**0.56**	**(4.02)**
Other comprehensive income	0.00	0.00	0.00
Members' remuneration charged as an expense	0.00	0.00	0.00
Retained profit (loss)	**0.02**	**0.56**	**(4.02)**

Financial Ratios

	Dec 17 %	Dec 18 %	Dec 19 %
Operating margin	0	(10)	(17)
Pre-tax profit margin	0	3	(16)
Employee costs as a % of revenue	36	48	57

The table above reflects the published results for the last three years but does not represent a like for like comparison year on year for a couple of significant reasons (i) 2017 was a 15 month period and (ii) during 2018, the trade and assets of subsidiary companies PIM and Sorbin were hived up (via intermediate holding company Asander, on 1 May 2018) and so PCP includes 8 months of trading from each (as they were not consolidated previously); the 2019 results thus include a full year of these subsidiaries' income.

Bearing such factors in mind, revenue (consisting of management and custody fees) increased by 23.8% between 2018 and 2019, with other income falling by 74% to just £0.2m [£0.8m]. Average monthly revenue (based on total income) has increased from £1.5m in 2017 to £2.1m in 2019.

Staff costs were again up quite significantly, with average employees increasing from 141 to 198, driving total payroll costs up by 42.2% from £10.2m to £14.6m. With these costs representing around half of total expenses, other costs seem to have been managed well to keep the increase in administration costs overall to 27.7%, up from £23.4m to £29.8m.

The outcome of this was a move to a significant loss, with increased costs outstripping the increase in revenue across the consolidated business. Tax is not payable by the LLP (nor are losses available to offset) so a total comprehensive loss of £4.0m was posted, which was covered by the LLP members (specifically AAM) making a cash contribution of £6m (total members' equity interests increasing from £13.25m to £15.27m therefore).

SLA's adjusted PBT for continuing operations decreased to £584m in the year to December 2019 [2018: £650m]. This 10% reduction on 2018 was mainly due to the impact on revenue of the asset outflows in 2018 (outflow £40.9bn) and 2019 (outflow £17.4bn excluding LBG). On an IFRS basis, PBT from continuing operations increased to £243m (2018: loss £787m) primarily reflecting the gains of £1.5bn realised from the sale of shares in HDFC Life and HDFC Asset Management.

The group paid ordinary dividends totalling £518m in the 2019 year reflecting £345m final dividend of 2018 and £173m interim dividend for 2019 [2018: £634m total]. A further £322m relating to 2019 was paid in May 2020. SLA has also returned an additional £1.75bn to shareholders during 2018 and 2019 through its 'B' share scheme and share buyback programme, and in February 2020 announced a further share buyback of up to £400m.

Statement of Cash Flows

	Dec 17 £m	Dec 18 £m	Dec 19 £m
Net cash generated from operating activities			
Net cash used in investing activities			
Net cash used in financing activities			
Net increase (decrease) in cash and cash equivalents	**1.10**	**1.20**	**1.59**
Cash and cash equivalents at end of period	4.40	5.60	7.19

Assets under Management (AuM)

	Dec 17 £m	Dec 18 £m	Dec 19 £m
Assets at start of period	2,691	4,383	5,206
Inflows			
Outflows			
Net market and other movement			
Assets at end of period	**4,383**	**5,206**	**6,960**
Growth rate (%)	63	19	34
Net inflows as % of opening AuM			

PCP is not required to produce a cashflow statement as this is undertaken at a parent level, but it does comment that its liquid resources remain strong. The balance sheet cash increased to £7.2m [2018: £5.6m].

Parmenion's AUM continue to increase, up by 34% to £7.0bn at December year end and to £7.5bn at the end of October 2020, notwithstanding the negative impact of COVID-19 on the market during the year. Gross outflows of 1% of AUM per quarter in 2020 were recorded as best in class by the lang cat in its adviser platform market reporting for H2 2020; inflows were running at 2.34% of AUM per quarter, and market share of AUM increased to 1.66% as at September 2020.

SLA overall reported AUMA down from £551.5bn at the end of 2018 to £544.6bn as at 31 December 2019. Gross inflows of £86.2bn were offset by continued redemptions totalling £144.6bn, the resultant net outflow was £58.4bn. This included the ongoing impact of Lloyd Banking Group's (LBG) withdrawal of the contract to manage the Scottish Widows portfolio after the merger of Standard Life and AAM. The net outflow was largely mitigated by positive market and other movements. Interim results for SLA for H1 2020 continued to reflect the negative impact of the expected LBG withdrawals specifically and COVID-19 generally - group AUMA reduced to £512bn.

Guide

INTRODUCTION

For over 20 years AKG has particularly focused on the financial strength requirements of financial advisers, who when acting on behalf of their clients, need to ascertain a company's ability to deliver sustained provision.

From this customer perspective, the financial strength of companies needs to be focused at an operational level, specifically on the company that is effecting the product or service that a customer is selecting. This is important, because from the customer's perspective it is that company (not some higher corporate entity) that needs to survive in a form that maintains the requisite operational characteristics to meet their fairly held requirements. And it is thus at this level that the selection needs of the customers' advisers must be met.

It is also important to understand the sector approach (comparative peer groups) that is adopted in financial strength assessment and rating process.

At AKG, this is again driven by the end customer perspective and the fact that assessment is designed solely for this purpose, i.e. as a component in helping customers' advisers to select between comparable companies competing to deliver relevant products or services.

AKG's focus and approach has remained consistent over the years since it commenced assessment and rating support for the market. However, coverage, format and presentation has rightly evolved over this period, in line with the needs and expectations of assessment and rating users in the market. And AKG considers further changes on a continual basis.

Further details including an explanation of what is included in the assessment reports and coverage can be found online at https://www.akg.co.uk/information/reports/dfm.

AKG's process for assessment and rating is to use a balanced scorecard of measures and comparative information, relevant to the companies contained within each peer group. This is gathered via Public Information only for non-participatory assessments and public information plus company interactions with companies for participatory assessments. Further details on AKG's process can be found at https://www.akg.co.uk/information/reports.

This includes further information on the different participatory and non-participatory basis and for companies wishing to learn more about participatory assessment AKG is pleased to outline this and welcomes contact.

This is a participatory assessment.

RATING DEFINITIONS

Overall Financial Strength Rating

The objective is to provide a simple indication of the general financial strength of a company from the perspective of those financial advisers who when acting on behalf of their clients need to ascertain a company's ability to deliver sustained operational provision of products or services.

The overall rating inherently reflects the mix of business within the company, since different types of customer or policyholder have different requirements and expectations, and the company may have particular strengths and weaknesses in respect of its key product or service areas. However, it also takes account of comparison across the sector in which it is assessed.

The rating takes into account those of the following criteria which are relevant (depending upon the company's mix of business in-force): capital and asset position, expense position and profitability, structure (and size) of funds within the company, parental strength (and likely attitude towards supporting the company), operational capability, management

strength and capability, strategic position and rationale, brand and image, typical fund performance achievements or product / service features, its operating environment and ability to withstand external forces.

Rating Scale	A	B+	B	B-	C	D	▣
	Superior	Very Strong	Strong	Satisfactory	Weak	Very Weak	Not applicable

Service Rating

The objective is to assess the quality of the organisation's service to the intermediary market in respect of the brand concerned.

Criteria taken into account include: performance in surveys, awards and benchmarking exercises (external and internal), the organisation's philosophy, service charters, the extent of investments designed to improve service, and feedback from intermediaries.

Rating Scale	★★★★★	★★★★	★★★	★★	★	▣
	Excellent	Very Good	Good	Adequate	Poor	Not Rated

Image & Strategy Rating

The objective is to assess the effectiveness of the means by which the organisation currently positions itself to distribute its products for the brand concerned and the plans it has to maintain and/or develop its position.

Criteria taken into account include: overall trends in the company's market share position, brand visibility and reputation, feedback from intermediaries and industry commentators, and AKG's view of the company's general strategy.

Rating Scale	★★★★★	★★★★	★★★	★★	★	▣
	Excellent	Very Good	Good	Adequate	Poor	Not Rated

Business Performance Rating

This review is an assessment of how the company and the brand has fared against its peers, and how it is perceived externally. Effectively this is how it has performed recently in the market. Whilst it will include performance indicators from the most recent available statutory reporting (report and accounts and SFCRs in the case of insurance companies, for example) it will also draw on other recent key performance elements before and after such disclosure, up to the point at which the assessment is undertaken.

Criteria taken into account include: increase/decrease in market shares, expense containment, publicity good or bad, press or market commentary, regulatory fines, and competitive position.

Rating Scale	★★★★★	★★★★	★★★	★★	★	▣
	Excellent	Very Good	Good	Adequate	Poor	Not Rated

ABOUT AKG

AKG is an independent organisation. Originally established as an actuarial consultancy AKG has, for over 20 years, specialised in the provision of assessment, ratings, information and market assistance to the financial services industry.

As the market has evolved over this period, the range of entities considered by AKG has expanded. Consequently, AKG has brought additional skill sets into its operations. This has meant the inclusion of accounting, corporate finance, IT and market intelligence experience, alongside actuarial resources, to deliver an expanded professional capability.

Today AKG's core purpose is in the provision of financial analysis and review services to support the wider financial services sector and its customers.

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