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PLATFORM SECTOR  
**Seven Investment Management**

# **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.



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## Rating & Assessment Commentary



### RATINGS

#### Overall Financial Strength



#### Supporting Ratings

	Service	Image & Strategy	Business Performance
Seven Investment Management LLP	★★★★	★★★★	★★★★



### SUMMARY

- Seven Investment Management (7IM) continues to provide a wide range of investment services to meet intermediary and client demands, with a growing discretionary fund management proposition, and in 2018 it opened a Jersey branch and launched its own SIPP
- With the acquisition of Tcam Asset Management (TCAM), completed in July 2018, and asset growth across the whole 7IM business (DFM and Platform) continuing, total AuM had increased to £14.5bn as at the end of January 2020
- Caledonia Investments plc continues to represent a stable form of ownership with long term investment and development characteristics, remaining supportive of 7IM's growth plans including providing £16.5m of 'follow-on' investment in 2018 to support the TCAM acquisition
- The financial performance of Seven Investment Management LLP (7IMLLP) has been relatively stable, with solvency and liquidity measures considered satisfactory
- Ownership by Caledonia has provided opportunity for the remaining founders to step back from the business and only one of the original seven now remains
- There has been significant change within senior management in the last 18 months, including the appointment of a new Chief Executive in April 2019 to drive the business through the next period of development under Caledonia ownership



### COMMENTARY

#### Financial Strength Ratings

##### Seven Investment Management LLP

The DFM and platform are provided through Seven Investment Management LLP (7IMLLP) and the business performed well in 2018, with a profit after tax (before Member's' remuneration) of £19.3m, marginally down on 2017. AUM is a KPI and has continued to grow, as has revenue and profit levels accordingly. Profit margins, whilst still good, have reduced slightly over the past three years.

Having acquired 7IMLLP's parent, 7IM Holdings Ltd (7IMH) in 2015, Caledonia Investments plc (Caledonia) continues to view its investment strategy as one to support the longer term growth ambitions of the 7IM team. Caledonia is a significant financial company with over £2bn of net assets as at 31 March 2019. It has a long-term investment horizon - often over ten years - and a predominantly 'value-building' style of investing. In the financial year to March 2019 Caledonia continued to invest actively across its portfolio, on both new investments as well as follow-up capital provided to numerous existing businesses including 7IM.

Regulatory capital requirements for 7IM as at 31 December 2018 were reported on a consolidated basis, where previously this had been reported on 7IMLLP in isolation. The reporting group includes the three current regulated entities 7IMLLP, 7IM Financial Solutions Ltd (7IMFS) and 7IM Investment and Retirement Solutions Ltd (7IMIRS), with the available capital resources reflecting the capital held by parent 7IMH), and a CRR coverage ratio of 163% was reported on this basis

## Service Rating

A combination of a simple fee structure and the development of app based reporting continues to prove positive for maintaining high service levels, with 7IM awarded numerous service-related awards in recent years - see Benchmarks section.

Service is seen by the business as a key part of enabling scale growth - the next phase of its development. This is also in keeping with the business culture of being innovative and looking to lead the market. There continues to be investment in systems to enhance functionality, ensuring these are scalable for a growing business.

## Image & Strategy Rating

Across the 7IM business, the development of new distribution channels (including the acquisition of TCAM, bringing a presence in Edinburgh / Scotland) and enhancements to proposition and services (such as the launch of the retirement planning service for decumulation) appear well supported by Caledonia, demonstrating a stable form of ownership with long term investment and development characteristics. This includes support for a strategy of delivering a spectrum of investment solutions to match a range of intermediary requirements rather than just a few 'set' options, a feature which also allows 7IM to differentiate itself in an increasingly crowded market.

7IM received approval for and opened a Jersey branch in St Helier in 2018 as part of a considered expansion into the wider offshore marketplace, with its intention to offer a 'leading offshore platform, with custody arrangements in Jersey'. In the UK 7IM launched its own SIPP in May 2018, offering a more integrated approach for those advisers seeking it. It is available on the 7IM platform along with other SIPPs as the open architecture approach has been maintained.

## Business Performance Rating

Total AuM in 7IM (platform and DFM) increased in 2018 despite a challenging market, with the TCAM acquisition in 2018 adding £1.1bn. Profits continued to be reported at all levels although margins declined slightly again. The LLP continued to develop new distribution opportunities during the year and concentrate on enhancements to its existing propositions. Management and owners appear satisfied with progress to date.

The wider business offered by the LLP continues to expand and support advisers. Early in 2018, the LLP launched a range of 5 'Active' models and in November 2018 a range of six 'Select Model Portfolios'.

A new Chief Executive was appointed in April 2019, with previous incumbent Tom Sheridan, a founder of 7IM, retiring. Prior to this, in 2018 a new Chief Investment Officer had been appointed and in 2019 support in the way of a new Chief Strategist was added. The previous joint-CEOs of TCAM initially joined the 7IM management team, although only one stayed on eventually, as Head of Portfolio Management. Other senior roles have been introduced and/or structures modified and the result has imprinted a significantly more 'corporate' feel to the business.

Caledonia Investments plc's objective as an investment trust is to grow net assets and dividends over the long term, whilst managing risk to avoid permanent loss of capital. As such its performance (year end March) is reported across a range of factors, short term and long-term. A view of performance from a pure 'comprehensive income' viewpoint highlights a significant increase in profit before tax for the year to March 2019, up from £26.5m to £198.2m. This includes a profit element of £34.6m based on investment income [2017: £31.5m] and a capital increase of £164m [2017: a capital reduction of £5m]. As at 31 March 2019 the group had net assets of £2,002m [2018: £1,837m].



## Group & Parental Context



### BACKGROUND

In September 2015, Caledonia Investments plc (Caledonia), via its subsidiary Caledonia Thames Acquisitions Ltd (CTAL), acquired the shares that Allied Zurich Holdings Ltd (AZH) and Aegon UK plc held in 7IM Holdings Ltd (7IMH). 7IMH is the Corporate Member of 7IMLLP and has 95% of the voting rights in 7IMLLP (with other individual members having 5% voting rights); Caledonia is thus considered to be the ultimate controlling entity of 7IMLLP.

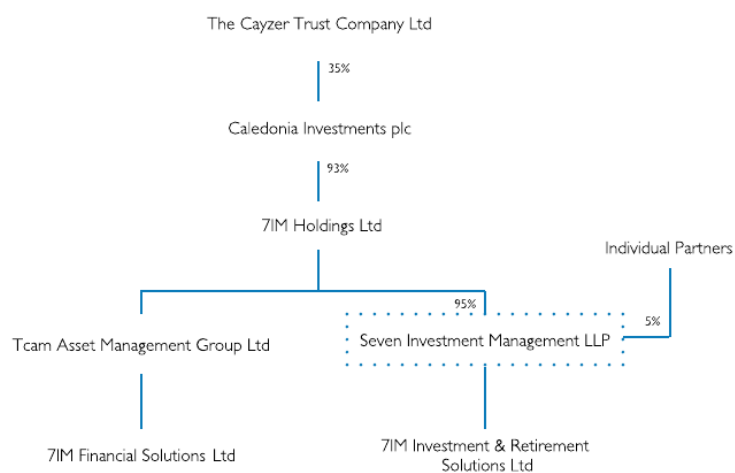
Tcam Asset Management Group Ltd was acquired by 7IMH in 2018, with the joint-CEOs of Tcam becoming partners in 7IMLLP as well as joining the management committee of 7IM (although one has since left the business). Various elements of the corporate structure holding 7IM and Tcam are now held via offshore (Jersey) companies with prior UK intermediate holding companies including CTAL dissolved in April 2019. Tcam Asset Management Ltd was renamed 7IM Financial Solutions Ltd.

Caledonia is listed on the London Stock Exchange and is a UK based self-managed investment trust company, with net assets of £2.0bn as at March 2019. Caledonia has been an investment company since 1987 and an investment trust company since 2003. It is part-owned (c48.5% in total) by various members of the Cayzer family (including the Cayzer Trust with around 35%) whose ancestor established the shipping business in 1878 from which Caledonia evolved.

The Caledonia investment trust business is managed through four pools of capital: Quoted, Income, Private Capital (previously called Unquoted) and Funds. Caledonia reports 7IM within its Private Capital pool where its value of £107.7m at the financial year end 31 March 2019 represented 16.3% of the closing value of the pool (£659.5m). Caledonia's total return from 7IM in financial year 2019 was 3.8% [2018: 13.2%]. Other investments in this pool include Cobehold, a Belgium-based investment company which it has held since 2004; Deep Sea Electronics, a leading designer and manufacturer of controllers for diesel-powered electricity and intelligent battery chargers, for which it paid £117m in October 2018 for a 98.9% stake; and Liberation Group (Jersey-based pub, restaurants and brewery business). In the 2018 financial year, Caledonia sold Choice Care Group (UK care homes provider) to an iCON Infrastructure Partners fund for £99.4m reporting a net IRR of 14.3% and a money multiple of 1.9x.



## GROUP STRUCTURE (SIMPLIFIED)



Key:

- • • • • Subject of this Assessment
- • • • • Non UK

# Company Analysis: Seven Investment Management LLP



## BASIC INFORMATION

### Ownership & Control

Caledonia Investments plc is the ultimate controlling entity of 7IM Holdings Ltd. 7IM Holdings Ltd has a 95% voting interest in Seven Investment Management LLP. Only one of the seven founders remain involved in the business, holding the balance 5% control.

### Year Established

Business was established in 2002, but 7IMLLP was established in 2012 to take over the business of Seven Investment Management Ltd

### Country of Registration

UK

### Head Office

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### Key Personnel

Role	Name
Chairman 7IMLLP	I B Owen
Chief Executive Officer	D M Proctor
Chief Financial Officer	D R Walker
Head of Corporate Development	J Urquhart Stewart
Chief Operations Officer	L Paradine
Chief Investment Officer	M Surguy
Managing Director, Intermediary	V Kenny
Managing Director, Private Clients	S Sanderson
HR Director	K Hughes
Chief Client Officer	C Phillips
Head of Business Transformation	A Baker
Head of Portfolio Management	H Bathgate
Chief Technology Officer	W Thornton-Reid (interim)

### Company Background

7IMLLP provides the 7IM platform technology, administration and support in-house, also acting as the ACD (Authorised Corporate Director) of the 7IM Investment Funds, 7IM Specialist Funds and 7IM Opportunity Funds. The firm acts as Investment Manager to 7IM (Dublin) Funds plc and to each sub-fund therein.

7IM was founded in 2002 by seven professionals who set up an investment management business, initially operating as a division of Killik & Co under the trading names of 7IM and 7 Investment Management. The 7IM platform was launched by the business in 2005. In 2007, AZH and Aegon UK jointly backed a new company Seven Investment Management Ltd

(7IMLtd) which, along with 7IM management, bought out the business from Killik & Co. Initially, AZH held 49% and Aegon UK 15%.

On 1 March 2013 the primary business of 7IMLtd was transferred to newly formed 7IMLLP. 7IMLtd changed its name to 7IM Holdings Ltd, and became the Corporate Member and immediate controlling party of the LLP.

A new subsidiary of the LLP, 7IMIRS, was established in 2018 to support the provision of a SIPP product.

During 2018, the LLP opened a branch in Jersey to provide services to Jersey-based clients.



## OPERATIONS

### Governance System and Structure

The Executive Committee (ExCo) of 7IMLLP retains the key responsibility for setting and monitoring financial risk. The policies set by the ExCo are implemented by an Investment Risk Committee, a Business Risk Committee, a Conduct Risk Committee and by the finance department.

An ICAAP is produced which ExCo formally reviews on an annual basis. A Pillar 3 Disclosure covering risk management objectives and policies, and regulatory capital requirements / capital resources information is produced and available publicly.

### Risk Management

The ExCo has management and oversight responsibility for risk management and meets quarterly, or more frequently as required. The ExCo decides 7IM's risk appetite and ensures 7IM has implemented an effective ongoing process to identify risks, measure the potential impact and ensure the risks are actively managed.

7IM has identified that it is exposed to, and therefore is required to manage risks relating to: market, liquidity, operational, credit, investment performance and regulatory risks. In addition, it identifies key personnel risk, in respect of the senior principals / management committee of the business, which it has mitigated by hiring a second tier of management in all areas.

Business Continuity Plans are maintained within each team within an overarching framework, and are tested on a regular (six-monthly) basis.

The Investment Risk Committee includes the Chief Executive, Chief Financial Officer and Head of Operations. This meets formally on a quarterly basis, but its terms of reference require approval of certain actions by circulation or by ad-hoc meetings. 7IMLLP concentrates on 'asset allocation' as the major building block for its investment process. It believes that asset allocation - the spread of different asset types in a portfolio - is responsible for around 91% of the variation in returns for a portfolio over the long term.

7IM utilised significant resources during 2018 on projects related to compliance with the new regulations, MiFID II and GDPR. In 2019 it also completed all the work required to ensure compliance with the SM&CR requirements.

Overall the business has increasingly adopted an approach which looks to link risk management more closely to investment processes at all points.

### Administration

7IM funds can be bought online through the 7IM platform, online through numerous other platform providers, or direct from 7IM's Fund Servicing Centre. A large staff team exists to service all customers and at the end of 2018 there was a total of 309 employees (average in 2017 was 248). The largest team was the Operations team with 44 staff, followed by Relationship Management (37) then IT (35) and the Platform (21) - this includes a dedicated team to help intermediaries get the best out of the 7IM platform technology. The business expanded its retirement planning options and became a pension provider by launching its own SIPP in 2018, with administration for the new 7IM SIPP provided by Imago.

Pershing Securities Ltd (PSL) acts as custodian for some clients and in this role is responsible for handling client money, custody of assets and settlement of transactions. PSL's arrangement with 7IM is as a 'Model B' provider, where the 7IM



client contracts directly with PSL for custody services rather than the custody being provided by 7IM outsourcing to PSL. The Pershing group provides a broad range of financial business solutions to investment banks, broker-dealers, wealth managers, financial planners and advisers, and provides sophisticated front-end technology and flexible middle office capabilities with execution, settlement and custody services. PSL is ultimately owned by the Bank of New York Mellon Corporation (BNY Mellon), a large US banking organisation founded in 1939.

The business continues to carry out significant vendor and supplier reviews and generally to upgrade its security systems and processes with input from executive and non-executive directors.

### Benchmarks

7IMLLP has won numerous awards and received accolades in recent years.

In 2019 it won Leading Retirement Proposition at the UK Platform Awards; and was Highly Commended in the Leading Platform for Discretionary Management category. It also won Best Investment Service at the Investment Life & Pensions Moneyfacts Awards.

Prior to this, in 2018, 7IM was awarded:

- Best for Accumulation (Complex needs) at The Lang Cat Advised Platform Awards
- Best Discretionary Fund Management Group of the Year (over £5bn) at the Investment Week Specialist Investment Awards
- Leading Retirement Proposition and Leading Platform for Discretionary Management at the Platform of the Year awards
- Best Investment Service at the Investment Life & Pensions Awards
- Best Goal Based Investment System at the Systems in the City Financial Technology Awards
- Fintech Advancement of the Year at the Citywealth Magic Circle Awards
- Innovation in Wealth Management at the City of London Wealth Management Awards
- 5 Diamond Defaqto rating for the 7IM Risk Targeted Fund Family
- 5 Star Defaqto rating for the 7IM DFM MPS on Platform

### Outsourcing

Northern Trust Corporation (Northern Trust) acts as depositary, custodian and administrator for 7IM funds, via various UK and Ireland based subsidiaries. Northern Trust is headquartered in Chicago, Illinois, USA. From a Chicago-based bank founded in 1889, it now has more than 23 international locations and 18,800 employees globally, as at December 2018. At the same date Northern Trust had US\$132bn in banking assets, US\$7.6trn in assets under custody, US\$10.1trn in assets under custody/administration and US\$1.1trn in assets under management.

Dunstan Thomas supported 7IM as external partner in building its new 7IM SIPP proposition, and all administrative functionality is provided by the Imago Administration system. 7IM also outsources to Financial Software Ltd and Morningstar.



## STRATEGY

### Market Positioning

Services run across several propositions. 7IM is engaged in the provision of discretionary investment management services to individual clients; a range of multi-manager 'specialist funds'; and the development of a range of model portfolios. It also offers the 7IM adviser platform, on an open architecture basis.

The historically HNWI nature of the 7IM offering across platform and investment management means it has been focused on a relatively small segment of the B2B market, although this is growing and 7IM appeals more broadly to the 'core' market now. It currently offers its services via financial planners and professional advisers/intermediaries, or dealing directly with clients, or executing on behalf of clients. 7IM does not have any in-house financial planning services.

7IM received approval and opened a Jersey branch in St Helier in 2018 as part of a considered expansion into the wider offshore marketplace, with its intention to offer a 'leading offshore platform, with custody arrangements in Jersey'. 7IM considers its range and operability of multi-currency options provided sets it apart from other offshore platforms.

In the UK 7IM launched its own SIPP in May 2018, offering a more integrated approach for those advisers seeking it, but other SIPPs remain available on the platform as the open architecture approach was maintained.

The TCAM acquisition in 2018 introduced 'complementary strengths which will produce an improved investment service' for 7IM customers, both intermediary and direct. It also brought 7IM a presence in Edinburgh / Scotland.

Client service is seen by the business as a key part of enabling scale growth, which is the anticipated next phase of its development. This is also in keeping with the business culture of being innovative and looking to lead the market.

### Proposition

7IM offers investment management services to individual clients and provides a range of OEICs to financial intermediaries and direct clients. It provides a range of investments within a wrap platform service environment to financial intermediaries if required.

7IM provides multi manager funds and asset allocated passive funds, along with a range of Dublin funds, and provides numerous other specific purpose funds. The fund sets offer a range to suit different investor requirements and objectives, and 7IM continues to bring new funds to market. For instance, early in 2018, the LLP launched a range of 5 'Active' models and in November 2018 a range of six 'Select Model Portfolios', these being risk rated model portfolios 'leveraging the high conviction strategy historically favoured by TCAM', it stated. In September 2019, against a background of lower expected returns following a prolonged bull market, it launched '7IM Pathway', a 'low cost range of volatility managed, diversified portfolios made up of passives'.

7IM continues to expand its adviser offering. Enhancements continued to be seen in its full service Discretionary Investment Management service, where a 7IM relationship manager works alongside the financial intermediary to deliver a bespoke service to the end client built around 7IM risk profiled strategies enhanced with specialist portfolios as required to reflect the required client strategy, with access to 7IM's series of active and passive strategies, an unconstrained approach and an income approach. Complementary investment vehicles run by other asset managers can be identified; portfolios can be managed within or outside tax wrappers, onshore or offshore; and the investment strategies can be implemented with unithised funds or through segregated model portfolios.

In 2017, 7IM launched a Managed Investment Service, where the intermediary retains full control of the relationship, supported by 7IM investment experts with access to the full range of 7IM funds and strategies.

7IM's Managed Portfolio Service (MPS), now running for over 6 years, offers a range of risk rated model portfolios for advisers looking to allocate client funds to a range of risk graded investment strategies. Each portfolio consists of 20-25 underlying funds. The 7IM Model Portfolios are available on numerous platforms in the intermediary space, as well as the 7IM platform.

The 7IM platform itself is set up on an open architecture basis, and allows investment in offshore bonds, ISAs and pensions products from numerous providers. 7IM thus offers a wide range of services and flexible routes to investing, depending ultimately on the client and/or financial intermediary's requirements.

The website was relaunched in 2017 to improve the provision of information to clients and intermediaries. One specific element of the service is the 7IMagine app which allows investors and clients to see where money is invested and what's happening to it. This continues to see development and now includes a cashflow modelling tool 'MyFuture'.

In 2018, 7IM launched its retirement planning service, focussed on assisting advisers with their decumulation requirements for clients at or near retirement. As previously stated, 7IM is now also a pension provider after launching its own SIPP in 2018, which it built in partnership with Dunstan Thomas, underpinned by the administrative functionality of the Imago Administration system.



## KEY COMPANY FINANCIAL DATA

Last 3 reporting periods up to 31 December 2018

## Capital Resources Disclosures

	Dec 16 £m	Dec 17 £m	Dec 18 £m
Available capital resources	8.7	9.8	13.7
Capital resources requirement (CRR)	5.5	6.3	8.4
<b>Excess capital resources</b>	<b>3.2</b>	<b>3.4</b>	<b>5.3</b>
CRR coverage ratio (%)	157	155	163

7IMLLP is regulated by the FCA and forms part of a revised 7IM reporting group established 31 July 2018, along with 7IMIRS and 7IMFS. A group Pillar 3 Disclosure was issued for December 2018 on this basis, with Capital Resources reflecting that of the UK holding group 7IMH. Share Capital of £50.5m was adjusted through the deduction of intangible assets down to £13.7m, all Tier 1 capital. The Fixed Overhead Requirement (FOR) approach for regulatory capital was taken, and calculate at £8.4m, so on this basis, as shown in the table above, coverage was reported at 163%. On a Pillar 2 basis, the capital resource requirement increases to £10.0m and coverage reported at 136%.

## Statement of Financial Position

	Dec 16 £m	Dec 17 £m	Dec 18 £m
Assets	57.8	59.1	46.8
Current liabilities	(42.1)	(43.4)	(25.8)
Long-term liabilities	0.0	0.0	(5.1)
Net assets	15.7	15.7	16.0

## Statement of Changes in Members' Equity

	Dec 16 £m	Dec 17 £m	Dec 18 £m
<b>Members' equity at start of period</b>	<b>15.8</b>	<b>15.7</b>	<b>15.7</b>
Movement due to:			
Members capital classed as equity	(0.1)	0.1	0.3
Retained earnings	0.0	0.0	0.0
Other	0.0	0.0	0.0
<b>Members' equity at end of period</b>	<b>15.7</b>	<b>15.7</b>	<b>16.0</b>

Members' other interests (equity) stood at £16.0m on 31 December 2018, slightly up on the prior year. £220k of capital was repaid to members during 2018 and £470k of new capital introduced, resulting in a net increase in capital of £250k.

The total interest that Members have in the business includes the 'equity' above plus allocated profits that have not yet paid to them and usually due within one year subject to the cash requirements of the business. The latter element is categorised as 'Loans and other debts due to/from members', and decreased from £12.1 in December 2017 to £5.8m in 2018. This arrangement is largely in place to ensure that members have funds available to meet their own personal tax liabilities arising from receiving profit share from the LLP (see below also). Total members' interests as at December 2018 were £21.1m [2017: £27.8m], with £16.0m [£15.7m] classed as equity - the reduction due to considerable drawings of £26.4m in the year, up from £15.7m in 2017.

## Income Statement

	Dec 16 £m	Dec 17 £m	Dec 18 £m
Revenue	58.3	62.1	64.5
Other operating income	0.0	0.0	1.5
Operating expenses	(39.7)	(42.7)	(46.7)
<b>Operating profit (loss)</b>	<b>18.6</b>	<b>19.4</b>	<b>19.3</b>
Other gains (losses)	0.0	0.0	0.0
<b>Profit (loss) before taxation and members' remuneration</b>	<b>18.6</b>	<b>19.4</b>	<b>19.3</b>
Taxation	0.0	0.0	0.0
<b>Profit (loss) after taxation</b>	<b>18.6</b>	<b>19.4</b>	<b>19.3</b>
Other comprehensive income	0.0	0.0	0.0
Members' remuneration charged as an expense	(6.5)	(6.9)	(7.5)
<b>Retained profit (loss)</b>	<b>12.1</b>	<b>12.6</b>	<b>11.8</b>

## Financial Ratios

	Dec 16 %	Dec 17 %	Dec 18 %
Operating margin	32	31	30
Pre-tax profit margin	21	20	18
Employee costs as a % of revenue	22	24	26

Turnover in 2018 was up by 4% to £64.5m, with 69% of this generated in the investment management segment, a further 7.5% from discretionary management services and 19% from the platform (with 5% 'other' income). In 2017 the split was limited to just investment management (82%) and investment administration (largely the platform) 17.5%. Overall performance was considered by the LLP to be satisfactory.

Total costs (excluding partners remuneration charged as an expense) were up by 9%, due to planned investment in systems. Staff costs represented 36% of total costs [2017: 35%]. Operating lease commitments in respect of the London and Edinburgh offices (the latter transferred from 7IMH in 2017) are included at a cost of £1.2m in the 2018 expenses [2017: £1.2m] with the commitments running until 2023 (with a break clause in 2020 for the Edinburgh property lease).

As a result of the increasing costs, the operating margin and pre-tax profit margin (the ratio in the table is pre- 'members remuneration charged as an expense') fell slightly again.

The average number of members during the year was 65 [62]. Members remuneration was charged as an expense and totalled £7.5m in 2018 [2017: £6.9m], up by 9%. In 2018 this left £11.8m profit available for discretionary division among Members [2017: £12.6m]. It should be noted that the LLP is not required to pay corporation tax, and that tax on the profits is the personal liability of each of the members. To mitigate any risk of individuals not being able to discharge their personal tax liabilities, the LLP retains an amount equal to the estimated income tax, National Insurance and any other taxes that might become due for each member, and this is held as a loan from the member (see note on members' total interests in previous section) which is paid to them when the tax falls due.

The profit share allocated to Corporate Member 7IMH was £9.4m [2017: £10.4m]. The major expense for 7IMH was finance costs totalling £0.7m [£1.1m] in respect of a loan from CTAL held for part of the year - this being repaid in July 2018 in line with the corporate restructure. 7IMH made a profit after tax of £7.2m [£7.9m] and paid total dividends of £10.0m [2017: £5.8m] up to its immediate parent.

Ultimate parent Caledonia Investments plc recorded income of £5m in respect of its investment in 7IM [2017: £nil], and small decline in the capital value of the investment at the end of the year.

## Statement of Cash Flows

	Dec 16 £m	Dec 17 £m	Dec 18 £m
Net cash generated from operating activities	28.8	20.8	20.8
Net cash used in investing activities	(1.2)	(0.7)	(0.7)
Net cash used in financing activities	(21.7)	(15.6)	(26.1)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>5.9</b>	<b>4.5</b>	<b>(6.0)</b>
Cash and cash equivalents at end of period	15.5	19.9	13.9

## Assets under Administration (AuA)

	Dec 16 £bn	Dec 17 £bn	Dec 18 £bn
Assets at start of period	10.1	10.9	12.4
Inflows	2.0	2.6	3.7
Outflows	(1.8)	(1.9)	(1.8)
Net market and other movement	0.6	0.8	(1.0)
<b>Assets at end of period</b>	<b>10.9</b>	<b>12.4</b>	<b>13.3</b>
Growth rate (%)	8	14	7
Net inflows as % of opening AuA	10	6	15

7IMLLP generated £20.8m of cash from operating activities in 2018 [2017: £20.8m], and after drawings of £26.4m [£15.7m] and net expenditure on capital items (tangible and intangible) of £0.7m [£0.7m] there was an overall cash outflow of £6.0m [2017: net cash inflow £4.5m]. Balance sheet cash decreased accordingly from £19.9m to £13.9m at the end of December 2018.

The members consider that the growth in its assets under management is the LLP's principal KPI. AuM grew further in 2019, up by 9% to £14.6bn, reflecting strong flows of new assets into the business and onto the platform. As at January 2020 AuM was £14.5bn and this was split between: Discretionary (direct business, including Tcam book of £1.2bn) £2.1bn; Discretionary (intermediary) £1.8bn; Platform (including 7IM Funds and Model Portfolios in 7IM custody) £6.8bn; and Funds and Model Portfolios (held on third party platforms) £3.8bn.



## 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/platform>.

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 any specifically onerous element such as with profits realistic balance sheet position, 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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This report is issued as at a certain date, and it remains AKG's current assessment with current ratings until it is superseded by a subsequently issued report or subsequently issued ratings (at which point the newly issued report or ratings should be used), or until AKG ceases to make such a report or ratings available.

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