



# FINANCIAL STRENGTH ASSESSMENT

PM ASSET MANAGEMENT LTD  
JANUARY 2011

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**AKG**

**Accessible – Comparative – Independent**

Analysis by AKG Actuaries & Consultants Ltd

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# I. INTRODUCTION

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## I.1. BACKGROUND

PM Asset Management Ltd (the Alternative Provider), is an asset management company based in the UK which specialises in developing and managing a range of unregulated funds, distributed by “authorised persons”. An integral part of the process whereby a provider is approved for use by an intermediary or group of intermediaries includes an assessment of the financial strength of the provider.

## I.2. AKG'S ASSIGNMENT

The Alternative Provider has commissioned AKG Actuaries & Consultants Ltd (AKG) to assess the Alternative Provider against specified criteria (attached as Appendix 1). The focus of the assessment will be on the financial strength and security of the Alternative Provider, in the context of the product proposition that is being offered by the Alternative Provider. For the purposes of this assessment the proposition considered is the Sycamore V Property Development Fund LP (the Fund). The Sycamore V Property Development Fund LP is effectively a replacement for the Sycamore II Property Development Fund LP, previously reported on by AKG (see AKG report dated January 2010) and which closed in October 2010, having raised £8.1m. (Note that references to PM Asset Management Ltd within this report are deemed to also refer to PM Asset Management (Fund V) Ltd, unless specifically indicated otherwise).

## I.3. RELIANCES AND LIMITATIONS

The information upon which AKG's assessment has been based has been supplied by PM Asset Management Ltd, supplemented by a conversation with Mark Yadegar (Managing Director). AKG also spoke with Ricky Cooney of Gallium Fund Solutions Ltd.

AKG has relied upon the accuracy and completeness of this information, and will not accept any responsibility or liability for any inaccuracies or omissions or for any consequences arising. Under no circumstances will AKG accept any liability in respect of the investment decisions of investors or for any loss arising there from. It should be assumed that AKG has not conducted any due diligence investigations to confirm the accuracy of any of the information supplied, unless it is explicitly stated to the contrary herein.

For the avoidance of doubt, AKG has not researched background details, including previous organisations of individuals connected with the Alternative Provider.

No account has been taken of the competitiveness, suitability or otherwise, of the product terms offered by the Alternative Provider.

AKG's assessment and subsequent conclusions has been carried out in the context of an “informed investor” rather than a “cautious investor” and comments and assessment reflect this. The nature of the products offered through PM Asset Management Ltd, namely Unregulated Collective Investments, is such as to require individual investors to be “well informed” or “sophisticated”. There is a clear need for advice and a full understanding of the risks involved.

Whilst many aspects underlying AKG's conclusions are likely to change only slowly, the financial services industry is a competitive, dynamic marketplace, with new products and developments being announced regularly. As a result, AKG cannot guarantee that any particular comment will remain appropriate at any future date.

The report remains current for the period of a year from the cover date, unless otherwise updated. In the event of updating the new report should be used in replacement of this report. Notwithstanding any updates the report should no longer be used after a year from the cover date.

AKG personnel are available to expand upon the comments in this report, if required.

#### I.4. CONFIDENTIALITY

This report has been produced for the Alternative Provider's consideration, and for use in accordance with the conditions outlined in paragraph 1.2 above.

AKG is happy for the Alternative Provider to reproduce all or part of this report in any internal or external published material, subject to prior written agreement of the content, context, duration and volume of such reproduction and of any reference, explicit or implicit, to AKG's involvement in producing this report.

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## 2. PROPOSITION OVERVIEW

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Key points evident in AKG's assessment are:

- The Fund is a UK unregulated collective investment scheme.
- The Fund has a sound rationale and appears to have a robust governance structure.
- Being unregulated there is no explicit investor protection.
- The General Partner is very recently established.
- PM Asset Management Ltd has an established track record and is trading profitably.
- PM Asset Management (Fund V) Ltd is newly established and no financial details are yet available.
- The Asset Manager has an appropriately experienced management team.
- Administration is carried out by a duly appointed and experienced Operator, Gallium Fund Solutions Ltd.
- There are no fund guarantees.
- In the event of failure of either the Asset Manager or the General Partner, the Operator would appoint replacements.
- Exposure to the loss of significant management personnel is recognised. Keyman life cover is in place.
- There is no contamination of the Fund with any debts of either the General Partner or the Asset Manager.

Overall AKG's assessment considers PM Asset Management Ltd to be a well managed niche operation with a well constructed set of relationships designed to deliver its 'alternative' investment solution, as part of a portfolio held by informed investors. Undeniably small and young and outside of what might popularly be considered the mainstream, it does not have the financial strength which might be seen as inherent in larger, well capitalised, institutions. However, through the structure of its offering, including the administrator being independent of the Fund (as well as other relationships within the proposition with robust entities), and its target market, the requirement for this is reduced.

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## 3. PROPOSITION/COMPANY DETAILS

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The main focus of AKG's assessment has been PM Asset Management Ltd, the Asset Manager. This company, through the knowledge and experience of its directors and senior personnel is central to the proposition – in essence it is this skill and experience that investors are buying into.

Consideration has also been given to the General Partner in respect of the Sycamore V fund. Peter Boys and Mark Yadegar, directors of PM Asset Management Ltd, are also directors and 50% joint owners of S5PD Fund (General Partner) Ltd, the General Partner.

Furthermore, within the assessment process AKG has also looked through to the other corporate entities which make up the overall proposition. To record these and illustrate their inter-relationship in simple terms, a schematic representation outlining the main relationships within the overall structure is given in Appendix 2.

### 3.1. THE PROPOSITION

The Fund is a closed ended English Limited Partnership. It will invest in a range of projects comprising residential developments with planning permission already in place and land sites with an identified development potential. SIPPs and SSASs will have access to the Fund through a feeder fund, the Sycamore V Exempt Property Unit Trust.

The Fund is projecting a net Total Return of 22.5% per annum. The Fund may borrow to fund its acquisitions.

There is a Performance Fee payable to the Asset Manager, subject to certain conditions, including a hurdle rate to Investors.

The Fund will have a life of seven years after the final closing date. It will make Distributions to Investors after three, five and seven years and after the final two year disposal of projects.

The Fund does not carry either capital or income guarantees.

### 3.2. GENERAL PARTNER

The General Partner is S5PD Fund (General Partner) Ltd, a UK company incorporated in 2010. It has no operating history and has yet to file any report and accounts.

The General Partner is the legal entity responsible for the management of the partnership receiving deductions from the fund and disbursing commissions and Operator's fees, together management fees to the Asset Manager. In fulfilling its obligations it has entered into agreements with other entities, including the Operator and the Asset Manager.

### 3.3. PROMOTER

The Promoter of the Fund is PM Asset Management Ltd, an appointed representative of Gallium Funds Solutions Ltd (see below).

It does not provide investment advice.

AKG has seen the most recently available annual (abbreviated unaudited) accounts of PM Asset Management Ltd, as at March 2010. These show the company to be operating profitably.

### 3.4. ASSET MANAGER

The Asset Manager, PM Asset Management (Fund V) Ltd is a UK domiciled company established for the purposes of managing the assets that comprise the Fund. It is a related company to PM Asset Management Ltd with common ownership. It has yet to file any report and accounts, having only recently been established.

The key personnel within PM Asset Management (Fund V) Ltd have the requisite knowledge and experience commensurate with the objectives of the Fund, being the same personnel as PM Asset Management Ltd.

The Asset Manager will receive a Performance Bonus equal to 30% of profits after deduction of the first 10% of profits due to the investors.

### 3.5. OPERATOR AND TRUST MANAGER

Administration services are provided to the Fund by the Operator, Gallium Fund Solutions Ltd, regulated and authorised by the FSA. Gallium Fund Solutions Ltd is not licensed to hold client money. All acquisitions and borrowing activity require the consent of the Operator to ensure these comply with the constitutional deeds of the Fund.

Gallium Fund Solutions Ltd also acts as Trust Manager to the Sycamore V Exempt Property Unit Trust.

Gallium is a relatively new company founded in July 2008 by Tony Norris, previously Managing Director of Partnership Incorporations Ltd (the Operator of the Sycamore II Property Development Fund). There is clear continuity in the arrangement together with the requisite knowledge and experience. – Gallium Fund Solutions Ltd also acts as Operator to the Sycamore IV Mezzanine Finance Fund LLP.

The company's latest set of accounts, for the 12 months to June 2010, show a small pre-tax profit of £2,883 [2009: £32,816 loss, in what was the company's first year of operation]. As a limited licence company it holds an appropriate level of capital. It is not required to hold capital in respect of operational risk but for the sake of prudence does hold capital in excess of its capital resources requirement.

### 3.6. TRUSTEE

The trustee for the exempt unit trust is the Royal Bank of Canada Trust Corporation Ltd. Its Report and Financial Statements for the year ending 31 October 2009 report an after tax profit of £575k [2008: £736k]. No dividend was paid during 2009 [2008: £1.4m]. The company's ultimate parent and controlling party is Royal Bank of Canada. Royal Bank of Canada is one of Canada's largest companies with a market capitalisation of around C\$80bn and assets under administration of around C\$2.5bn.

Its ultimate parent is Royal Bank of Canada, incorporated in Canada. It is Canada's largest company by market capitalisation, having, as at December 2010, a market capitalisation of US\$75bn.

Royal Bank of Canada is rated AA- by S&P (positive outlook) as at 2 December 2010.

### 3.7. PARTNERSHIP BANKERS

All partnership monies are banked with Barclays Bank plc. Monies flow directly into the partnership bank accounts in the case of direct investors, whilst monies in respect of the unit trusts are routed via the trustee accounts held with Royal Bank of Canada. Access to monies in excess of £5,000 by either the General Partner or the asset manager requires signatures from both the General Partner and the Operator.

## APPENDIX I CRITERIA & PROCESS

AKG has reviewed the Alternative Provider in the context, specifically, of understanding the proposition and how this might be affected in the event of failure or other untoward event and the onward impact on investors.

It is important to understand what is meant by Financial Strength. In this, AKG's origins are important. As an organisation AKG comes from the perspective of providing ratings and assessment together with support for the UK intermediary sector in the context of required information on life companies, and other entities which that sector advises on. This focus, together with its use of an actuarial skill set blended with market/distribution knowledge, has created a unique expertise, as distinct from the less specialist global ratings agencies or those providing credit ratings.

This is manifest in the key definition AKG places on financial strength (for both ratings and assessment). Namely, that the objective is to go beyond purely a consideration of solvency (albeit this will always be an important part of the mix) and consider in what format an organisation may be able to survive to meet the reasonable expectations of customers and their advisers. Expectations, which must include the experience encountered by these two groups, will therefore include ongoing operational abilities and performance.

This is often summarised as three key underlying questions relevant to an intermediary and their clients:

- Will a company survive?
- If so, in what form?
- Are expectations likely to be met?

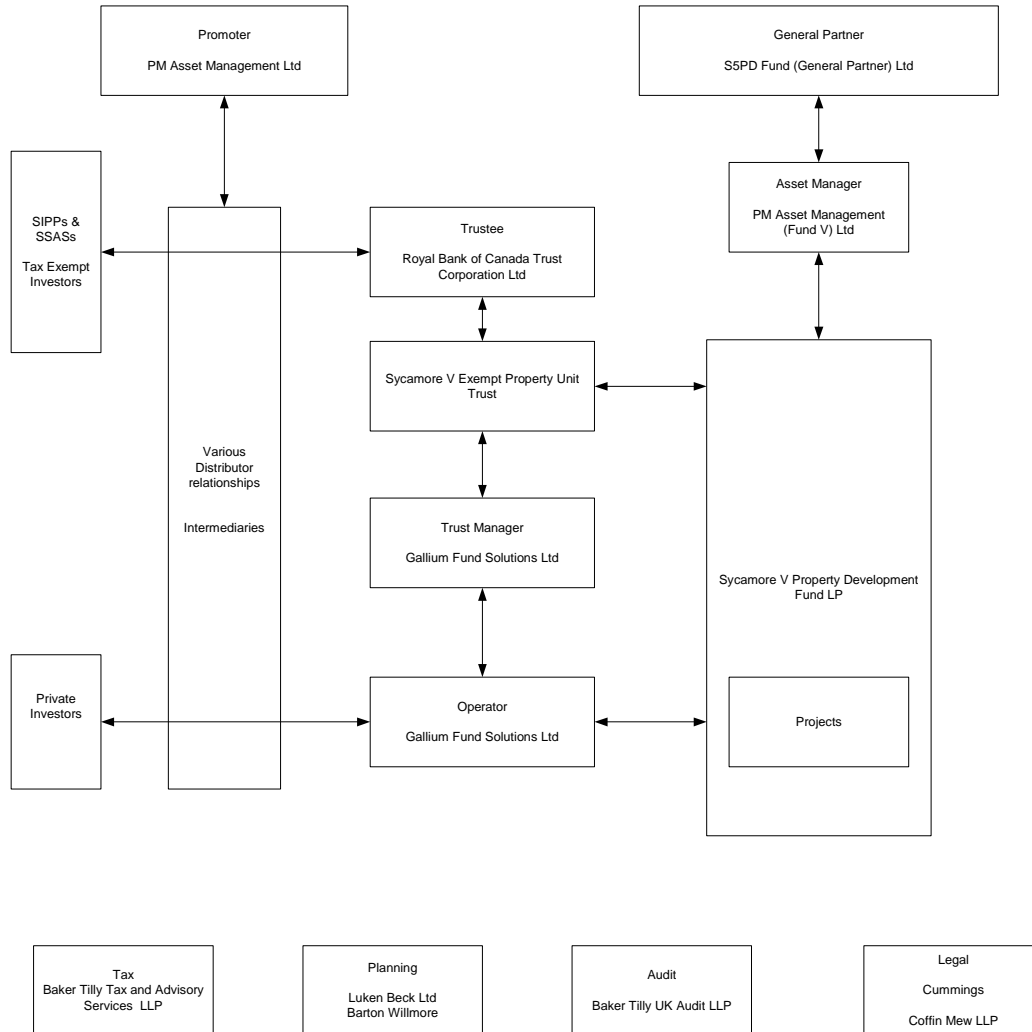
The following listing outlines elements considered within this process, where relevant:

Broad element considered	Areas of focus
Strategic appraisal	<ul style="list-style-type: none"> <li>• Distribution Focus</li> <li>• Process</li> <li>• Competitive Position                             <ul style="list-style-type: none"> <li>○ Barriers to entry in segment</li> <li>○ Competition</li> <li>○ Areas of sustainable competitive advantage</li> </ul> </li> <li>• Company Structure and its fit with strategy</li> <li>• Customer Focus</li> <li>• Performance – Current and Past</li> <li>• Risks and Risk Controls – Strategic, Market and Business Risks</li> </ul>
Financial and actuarial appraisal	<ul style="list-style-type: none"> <li>• Company Structure</li> <li>• Capital Structure</li> <li>• Use of Capital / Capital Availability</li> <li>• Solvency Levels (Statutory and Realistic)</li> <li>• ICAs</li> <li>• Realistic Reporting, PPFMs, TCF</li> <li>• Process</li> <li>• Valuation Bases</li> <li>• Expenses</li> <li>• Reinsurance Arrangements</li> <li>• Business Mix</li> <li>• Margins</li> <li>• Customer Focus (TCF)</li> <li>• Risk Tolerance</li> </ul>

	<ul style="list-style-type: none"> <li>• Risks and Risk Controls</li> </ul>
Operational appraisal	<ul style="list-style-type: none"> <li>• Company Structure</li> <li>• Management</li> <li>• Servicing / Administration</li> <li>• Management of / Coordination with Independent Companies, e.g. Outsourcing, Open Architecture</li> <li>• Investment – Philosophy, Matching, Asset Splits, Management</li> <li>• Product Lines</li> <li>• Customer Focus</li> <li>• Risk Control – Operational Risks, including Business Continuity</li> </ul>
Analysis of the Group and other entities	<ul style="list-style-type: none"> <li>• Group Structure</li> <li>• Where and how does the company fit in?</li> <li>• Why? Is it core?</li> <li>• Financial Support – Past, Present and in the Future</li> <li>• Capital Availability to Company</li> </ul>
Relevant Other Entities – ‘Collaborative’	<ul style="list-style-type: none"> <li>• Reinsurers</li> <li>• Outsourcers <ul style="list-style-type: none"> <li>○ Servicing / Administration</li> <li>○ Investment</li> <li>○ Within Group</li> </ul> </li> <li>• Counterparties</li> <li>• Process</li> <li>• Distributors</li> <li>• External Fund Managers</li> <li>• MoM Managers</li> <li>• FoF Managers</li> </ul>

Note: The above listing outlines elements considered within the process (a number will be more or less appropriate in each case and will depend on entity type.)

## APPENDIX 2 RELATIONSHIP CHART SYCAMORE V



The table above is provided as a means of representing the various entities present within the proposition and their interrelationships.

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## APPENDIX 3 ABOUT AKG

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AKG is an actuarially based consultancy specialising in the provision of ratings, information and market assistance to the financial services industry.

### **A wide range of Clients**

Within a specialist focus on the financial services industry, AKG has developed a broad, complementary range of clients including: Intermediaries (IFAs), Life Companies, Friendly Societies, IFA Networks, Regulators, Fund Managers, Trade Bodies, Service Providers, Banks, and Building Societies.

### **Support for Product Providers**

AKG assists Providers in:

- Financial Strength Analysis and Presentation
- Data and Information Provision
- Actuarial Consultancy
- Distribution Consultancy

### **Assistance to Financial Intermediaries**

AKG assists Intermediaries in:

- Financial Strength Analysis and Ratings of Product Providers
- Best Advice Panel Services
- Data and Information Provision
- Actuarial and Technical Support

### **Regular Reports**

AKG publishes the following reports to assist providers and intermediaries:

- **AKG Company Profile & Financial Strength Reports**  
(Covering UK life assurance companies)
- **AKG Offshore Profile & Financial Strength Reports**  
(Covering Offshore life assurance companies)
- **AKG UK Life Office With Profits Report**

For further details on any of the above please contact AKG:

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