Tatton ASSET MANAGEMENT PLC

16 June 2020

Tatton Asset Management PLC
(“TAM plc”, the “Group” or the “Company”)
AIM: TAM

AUDITED FINAL RESULTS
For the year ended 31 March 2020

TAM plc, the investment management and IFA support services group, today announces its audited final results for the year ended 31 March 2020.

FINANCIAL HIGHLIGHTS

- Group revenue increased 22.0% to £21.369m (2019: £17.518m)
- Adjusted Operating Profit[1] up 24.2% to £9.076m (2019: £7.308m)
- Adjusted Operating Profit[1] margin increased to 42.5% (2019: 41.7%)
- Operating profit increased to £10.302m (2019: £5.925m)
- Profit before tax increased to £10.296m (2019: £6.112m)
- Final dividend increased by 14.3% to 6.4p (2019: 5.6p), giving a full year dividend of 9.6p
- Fully diluted adjusted earnings per share (“EPS”)[2] increased by 19.8% to 12.00p (2019: 10.02p)
- Healthy financial position, strong balance sheet and £12.757m of net cash (2019: £12.192m)

1 Operating profit before exceptional items, IFRS2 share-based payment costs and amortisation of acquired intangibles

2 Adjusted fully diluted earnings per share is calculated by dividing the adjusted operating profit less cash interest and less tax on operating activities by the weighted average number of ordinary shares in issue during the year plus potentially dilutive ordinary shares

OPERATIONAL HIGHLIGHTS

- Tatton Investment Management’s (“Tatton”) discretionary assets under management (“AUM”) increased 9.6% to £6.651bn (2019: £6.068bn)
- Organic net inflows of £1.129bn (2019: £1.106bn) or 18.6% of opening AUM, an average of £94.1m per month
- The Group responded swiftly to the COVID-19 outbreak and efficiently implemented comprehensive business continuity plans
- The Group made its first acquisition: Sinfonia Asset Management Limited, five risk targeted funds that complement the current fund range proposition
- Tatton increased its firms by 33.7% to 595 (2019: 445) and number of accounts to 66,100 (2019: 58,500)
- Tatton’s long-term business partnership with Tenet, which was announced in June 2019, is developing well with81 new Independent Financial Adviser (“IFA”) firms and initial business activity has resulted in AUM of £226m
- Amalgamation of Consulting and Mortgages creating a simplified IFA support services business, allowing the Group to better meet the needs of IFAs through an integrated approach
- Paradigm Mortgage Services increased gross lending via its channels by 17.5% to £9.86bn (2019: £8.39bn)
- Paradigm Consulting increased the number of member firms to 394 (2019: 390)

Paul Hogarth, Chief Executive Officer, commented:

“I am pleased to report another year of progress for the Group, in this our third year as a plc. Despite a complex macro backdrop, we have continued to perform strongly and delivered against all the challenging targets we set ourselves at the time of our IPO.

I am particularly pleased with how the Group has reacted to recent events working remotely and maintaining our focus on supporting our IFAs and wider client base. I personally feel that you cannot beat face to face advice and look forward to the resumption of normal business practices as and when circumstances allow. It will be great to see our IFA partners moving their businesses forward and supporting their clients in their normal manner.

This year the Group made its first acquisition of Sinfonia Asset Management from Tenet and the integration process has gone well, we have made very good progress working with the Tenet firms and converting them to the benefits of the Tatton DFM proposition. Looking forward we are committed to making Tatton a true asset manager and we are looking to enhance its investment product offering. As always, we rely on IFA feedback which enables us to shape and develop our proposition.

will, inevitably, be opportunities in our markets, as a result of this unprecedented disruption. TAM plc maintains its clear focus on delivering sustainable organic and acquisitive growth and is well placed to act should any appropriate opportunities arise.

The Board is looking forward to the future with confidence and to reporting on the Group's progress as the year unfolds."

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CHAIRMAN'S STATEMENT

Continued progress against our strategy

The financial year ended 31 March 2020 was a challenging period beginning amid the political turmoil caused by Brexit and concluding with the onset of an unprecedented global health crisis. Nevertheless TAM plc has achieved a third successive year of growth in revenue, profits and assets under management ("AUM").

COVID-19 began to affect financial markets across the world at the end of January 2020, and we have included a separate report on its impact on our businesses in the section immediately following this statement. The Board would like to express our sincere hope that all shareholders, staff, clients, advisors and suppliers, have been able to keep safe during this unprecedented development and will be able to get through the pandemic in as positive a manner as is possible.

Our people

On behalf of the Board, I would like to take the opportunity to acknowledge the very high level of contribution from each member of staff that has made it possible to achieve the position outlined in this statement, and to offer our grateful thanks. At the same time, I should draw attention to the positive and effective leadership provided by the Executive, in unprecedented circumstances, which has enabled the Group to sustain the service levels and high standards needed to maintain positive trading over the last few months, and will equip us to meet the challenges ahead.

Results

The impact of COVID-19 in the period under review has been to reduce the value of AUM during February and March 2020, although flows of net new funds, and revenues, held up well.

Group revenues increased by 22.0% to £21.369 million (2019: £17.518 million). Adjusted Operating Profit* increased by 24.2% to £9.076 million (2019: £7.308 million) and profit before tax, after incurring exceptional items and share-based payment charges, was £10.296 million (2019: £6.112 million). The resulting impact on fully diluted adjusted earnings per share was an increase of 19.8% to 12.00p (2019: 10.02p). Basic earnings per share were 14.98p (2019: 8.69p).

Tatton, our on-platform discretionary asset manager, increased AUM by 9.6% to £6.651 billion (2019: £6.068 billion) with strong net inflows of £1.129 billion. Paradigm, the Group's IFA support business, has enjoyed another year of growth, increasing both the number of member firms and revenue flows. Mortgage Services, the Group's mortgage distribution and support services business, continued to grow well. Member firms increased 10.9% to 1,544 with associated gross lending from completions increasing 17.5% to £9.86 billion (31 March 2019: £8.39 billion).

Strategy

The Group's strategic objectives have not been materially affected by recent events. We retain our focus on organic growth through the provision of products and services that are designed to enable Independent Financial Advisers ("IFAs") to advise their clients, and we continue to invest in both people and technology that will steadily grow the business by enhancing our support for them.

Our operating systems have been designed in such a way that staff, working from home, are able to maintain service levels and standards that sustain the broad product offering of all our underlying businesses. We are now focused on reinforcing resilience in our operational, business development, and financial management capabilities.

Challenging market conditions create opportunities and threats in diverse areas and we are acutely conscious of the possibility of further consolidation in our industry. We have evaluated several acquisition opportunities during the period under review but remain committed to pursuing only those which are complementary, strategically aligned to the existing model, earnings enhancing and accretive to shareholder value.

Board and corporate governance

TAM plc remains committed to the highest standards of corporate governance. The Board and its Committees are key to guiding the Company and leading its strategy, and we are determined to ensure that we have the right mix of skill sets to steer the Group forward. In a business evolving in the current challenging environment, we will maintain a governance structure that underpins and encourages growth, while ensuring effective controls and safeguards are in place.

Section 172 Statement

Section 172 of the Companies Act 2006 requires the Directors to act in the way that they consider, in good faith, would most likely promote the success of the Company for the benefit of its members as a whole. Further information on our engagement with stakeholders and consideration of our dividend policy can be found in our full financial statements.

Dividends

Given the Group's performance this year; the strong cash generation; and our confidence that we can adapt to meet changing market circumstances, the Board is proposing a final dividend of 6.4p per share, bringing the total ordinary dividend for the year to 9.6p per share, an increase of 14.3%, which is 1.9 times covered by adjusted earnings per share. The Board continues to operate a progressive dividend policy and targets a payout ratio in the region of 70% of annual adjusted earnings per share over the medium term.

Outlook

While the trading period immediately in front of us is not easy to read, the Group remains well-positioned to execute our strategy.

As the new financial year progresses, we will adapt where necessary to meet changing trading conditions, while continuing to build on the success achieved to date through further investment in efficient operations and customer service. As a result we anticipate delivering continued returns to our shareholders through a progressive dividend policy, and remain optimistic over our ability to achieve further progress.

COVID-19 impact

The COVID-19 pandemic has impacted all businesses to varying degrees. The Board of TAM is pleased to report that, whilst the Group's performance has been affected, the Group operates in resilient markets and the directors believe the fundamentals of the business and its route to market remain strong and relevant in these unprecedented times.

Throughout the pandemic, the Group has supported its customers (the IFAs) by providing valuable data and narrative to enable them to communicate clearly with their clients, further cementing long-term mutually beneficial relationships.

TAM plc has a low-risk, high-margin business model, based on strong levels of recurring revenue (circa 85% over the last 3 years). Whilst it's still too early to estimate accurately the full financial impact of the pandemic, the Group has a robust financial liquidity position with £12.8 million cash at 31 March 2020 and no debt; a £1.5 million overdraft facility which remains undrawn; and a highly efficient working capital cycle, ensuring strong operating cash conversion (c.100% of adjusted operating profit). The Company also has indications of a good level of support from quality lending institutions, in the unlikely event that this will be required.

The Board is confident that the Group has more than adequate resources to withstand the challenges the pandemic presents in the short to mid-term.

As noted above, the dividend policy remains unchanged.

The Group operates on a lean cost base, which enables our businesses to remain competitive in their markets. However, we are undertaking a cost reduction exercise to ensure that all opportunities to improve efficiency are explored. Whilst investment in future growth will continue, a moratorium on material capital expenditure is in place and salary increases and bonuses have been frozen until the COVID-19 situation unfolds. The Group will not take advantage of Government support schemes, which the Board believes are intended for businesses significantly more affected than TAM plc.

The Group's forecast has been reviewed and updated for the expected impact of COVID-19 pandemic, various market scenarios and management actions. This review has allowed management to assess the potential impact on income, costs, cash flow and capital and the ability to implement effective management actions that may be taken to mitigate the impact.

The Board will continue to support its people and take all the precautions necessary to ensure the Company's ongoing robust financial health and remains vigilant, constantly monitoring the evolving situation. New opportunities to strengthen the business through acquisition will also be evaluated if and when they arise.

ROGER CORNICK
CHAIRMAN

* Alternative performance measures are detailed in note 23.

CHIEF EXECUTIVE'S REVIEW

Investment evolved

I am pleased to report on another year of progress for the Group, in this our third year as a plc. Despite a complex macro backdrop, we have continued to perform strongly and delivered against all the challenging targets we set ourselves at the time of our IPO.

We floated in 2017 with a clear strategy to drive revenue and profitability through the development and growth of assets under management (AUM), and by building on existing relationships, while further developing new relationships with IFAs and new members across the Group.

Since then, we have increased our AUM from £3.9bn to over £6.6bn, an increase of circa 70%. Almost all of this growth has been achieved organically. In the year under review, net inflows averaged £94.1m per month, compared to £90.0m per month in the prior year, with additional support from the acquisition of Sinfonia Asset Management from Tenet in September 2019, which added a further £135m of AUM.

Today, Tatton is working with over 595 IFA firms, and manages 66,100 client accounts, representing growth of 114% and 55% respectively since IPO. The number of Paradigm Consulting IFA firms, for whom we provide regulatory and compliance services, has also continued to grow in this three-year period, increasing from 352 to 394, and our Mortgages Services membership increased from 1,069 to 1,544.

Over the three years since IPO the key driver for the Group's growth in both revenue and profits has been our on platform Discretionary Fund Management Managed Portfolio Service ("DFM MPS") proposition, which remains the most competitive in the market. It has no minimum investment and delivers a standard of service to all levels of investors and their IFA irrespective of portfolio size, which some other providers normally reserve for wealthier clients. This, combined with risk management, creates a compelling proposition for IFAs.

The Group has achieved its targets, despite facing some major headwinds: global equity markets endured steep declines in Q4 2018 amid persistent worries over trade and economic growth; uncertainty surrounding the UK's Brexit plans followed closely, creating investor hesitancy throughout 2019; and, in the final month of the year under review, the COVID-19 pandemic and resulting lockdowns which wiped trillions off equity values around the world.

We have weathered all these storms and have continued to deliver growth in line with expectations, by focusing on providing simple but effective solution-based services to our clients, including the most competitive DFM offering available. I would like to thank our shareholders for backing our team and supporting our ambitions and our clients for their continuing commitment and faith in our ability to deliver an unrivalled service.

COVID-19

As stated in our most recent Trading Update, the Group responded swiftly to the Covid-19 outbreak and efficiently implemented comprehensive business continuity plans. We pivoted to remote working, seamlessly replicating our processes and systems, whilst safeguarding the health and safety of our employees and ensuring that the business continued to service our clients as normal. The Group will not be taking advantage of any Government support scheme, which the Board believes are intended for businesses which have been significantly more affected than TAM plc.

The market overview

Before the impact of COVID-19 IFA businesses were continuing to thrive, reporting increased levels of turnover and profitability. Over the last 12 months, the number of IFA firms across the full IFA population has remained static and we would expect that, post lockdown, IFAs will return to recent historic levels of activity. We do not expect the number of supporting firms to reduce due to COVID-19 issues, as their recurring revenue model and low geared cost base ensures continued financial prosperity.

Tatton has always believed in the benefits of independent intermediated advice, and we are very encouraged by how IFAs are adapting to change and delivering value to their clients, while maintaining profitable businesses. The requirement for independent financial advisory services continues to grow with eight out of ten advisers reporting an increase in client numbers year on year. It is interesting to note that robo-advisory businesses, which provide financial advice and investment management based on mathematical rules or algorithms and with minimal human intervention, are struggling to reach critical mass and financial viability.

While many financial advisers continue to manage and run portfolios in-house, it is clear that an increasing number are reviewing their business models in favour of the outsourced investment management services, which contribute to improved efficiency in the financial planning process. The complexity of the financial planning process and burden of regulation, including MIFID II reporting, makes researching and maintaining investment portfolios in-house challenging and increasingly expensive. When set against a backdrop of increased global market volatility and economic uncertainty, we see the trend for outsourcing escalating and demand for Tatton's services increasing.

The broader opportunity for Tatton continues to improve, with over £500bn of assets currently sitting on platforms of which more than £50bn are in model portfolios. Tatton currently has £6.651bn and is the largest provider of DFM MPS. Platforms are expected to grow by 5-6% per annum, with some commentators forecasting that assets will exceed £1.0 trillion by 2023.

Tatton

This year has seen another strong year of growth for Tatton. Net inflows were £1.129bn (2019: £1.106bn) and we also experienced a significant increase in IFA firms to 595 (2019: 445). The closing balance of AUM was £6.651bn, a 9.6% increase on the prior year despite being impacted by a negative market performance of 14.3% or £1.1bn towards the end of the financial year, due to COVID-19 related market falls. Prior to this, our AUM reached a record level of £7.758bn on 21 February 2020, an increase of 100% since we joined AIM.

A significant milestone in the year was the strategic partnership announced in June 2019 with Tenet Group ("Tenet"), one of the UK's largest financial advisory businesses, to provide a managed portfolio service for its appointed representatives and directly authorised firms. Of the 474 Tenet firms, 81 firms are now using Tatton's services and they have contributed £261.0m of net new flows. The year also saw the acquisition of the Tenet's Sinfonia funds in September which contributed £135.0m of AUM.

Our focus this year will be to consolidate our position as the leading DFM MPS provider of choice. We will look to leverage our competitive advantage as being a high value low cost DFM and further developing our AUM organically. However, it has always been our intention to become a true asset manager, building on the success of our MPS services and adapting to increased IFA demand for cost reducing multi-asset multi manager solutions. This ambition is achievable through a combination of organic and M&A activity, enhancing the value of our AUM and continuing to serve the demands of the IFA sector for improved client solutions.

At the current time, it remains unclear what further impact the COVID-19 pandemic will have on the business. Since the year end, AUM has recovered in line with our 0.6 beta[1] to the markets and the start of the new financial year has seen positive net inflows in the first two months. Clearly, events will further unfold, but we believe our business model is robust and resilient and the business remains well placed to manage its way through the effects of the pandemic.

Paradigm (IFA support services division)

During the year, we took the decision to simplify our business units to create a clear distinction between our investment management and support services businesses. The Paradigm businesses now report under a single operation and continue to deliver both IFA Consulting and Mortgage Services.

Paradigm Consulting maintains close relationships with its financial adviser firms, providing bespoke consultancy and support and helping them manage the risk of an ever-changing landscape of regulation. The number of firms has marginally increased in the year under review, growing from 390 to 394, with a mix of ad hoc consultancy and competitive pricing contributing to a 9.6% increase in revenue to £2.476m (2019: £2.260m).

Paradigm Mortgages aggregates mortgage lending and life insurance. Membership of Paradigm Mortgages enables advisers and their clients to benefit from economies of scale and secure access to the best mortgage deals and life assurance products available. This year has been a difficult one in the mortgage market, with the first half framed by Brexit uncertainties and finishing with the impact of COVID-19. Despite these challenges, revenue rose by 9.7% to £2.949m (2019: £2.689m), as membership grew 10.9% to 1,544 (FY19: 1,392) and gross lending from completions rose by 17.5% to £9.86bn (FY19: £8.39bn).

The recent lockdown restrictions have made completing mortgages difficult. This has, inevitably, impacted all parts of the mortgage supply chain and, while the restrictions have been eased, it will take time for the market to return to normality. The likely total impact still remains difficult to forecast. That said, the business is lean and efficient and remains in good shape to navigate its way through this crisis.

Current trading and outlook

The strong momentum built through the year has been impacted during lockdown, with engagement of both existing and potential client IFAs naturally lower than in the preceding months. Our teams continue to work remotely, in line with Government guidelines which, while effective, hampers normal activity levels to a certain degree. I have no doubt that when restrictions are fully lifted and we can safely return to normal operation, the Group's new business flows will also return to normal levels. Naturally this will be dependent on government guidelines and no further interruptions caused by freshly imposed restrictions in the future.

All that said, Tatton has provided considerable support and valuable market data to its IFAs throughout this exceptionally difficult time. The positive feedback we are receiving shows how much this work has been appreciated by our IFAs. I believe the goodwill and positivity around our services will translate to new business opportunities, as IFA businesses talk with their peers and come to realise that they have been left significantly exposed with little or no support in a volatile and difficult market environment. IFAs who have continued to in-source their investment proposition have now been exposed on three separate occasions: Woodford and the "star" fund manager reliance; the suspension and lack of liquidity in property funds, another favourite of IFAs; and latterly, the collapse of global markets. These events must have instilled doubt over the decision to continue providing this service in-house and will lead them to evaluate peer-recommended outsourcing alternatives.

We expect Paradigm Consulting to trade as normal through this uncertain period, albeit remotely. Clearly, the mortgage market and its behaviour are out of our control and we remain guarded against forecasting any significant recovery in the short-term. One thing we know for sure is that lenders will be more risk adverse, reducing their loan to value (LTV) lending ratio. That said, it is clear that demand will return in the medium term as structural market conditions have not fundamentally changed, and Government incentivisation is anticipated to assist economic recovery post COVID-19.

It would not be the right description to refer to COVID-19 as a bump in the road but we have often internally referred to the recent loss of momentum as leading to a potential lost year on our growth trajectory. Unfortunate as this is, we believe the Group is resilient and financially robust, with an enduring business model and exceptional people. The Board and I have no doubt that the business will rebuild momentum rapidly when circumstances permit.

There will, inevitably, be opportunities in our markets as a result of this unprecedented disruption. Tatton maintains its clear focus on delivering sustainable organic and acquisitive growth and is perfectly placed to act should any appropriate opportunities arise.

The Board looks to the future with confidence and to reporting on the Group's progress as the year unfolds.

PAUL HOGARTH
CHIEF EXECUTIVE OFFICER

1. Beta: The level of volatility in comparison to the market as a whole.

CHIEF INVESTMENT OFFICER'S REPORT

Business growth accelerates

Net inflows remained strong at £1.129bn over the year, while the core proposition was expanded to enhance future growth potential.

Capital market returns veered from headwind to tailwind during the 2019 calendar year, while AUM growth was driven by strong inflows and positive market performance. Until the pandemic crisis, UK investor sentiment was overshadowed by Brexit, but a more positive liquidity backdrop – as central banks reversed monetary tightening – drove global portfolio values upwards.

After reaching a peak of £7.8 billion just before the pandemic, negative market returns drove Tatton's AUM back down to £6.7 billion. Net client inflows remained positive at £86 million for March, supported by a continual supply of market updates and insights during the crisis, which put investor fear into context and prevented panic-driven redemptions.

As adviser business activity gradually returns, we are benefitting from the support we gave them during the crisis, which has strengthened our relationships and boosted confidence in our portfolio stewardship. Our proactive communication approach, together with investor returns strictly within the boundaries of chosen risk profiles, presents a solid base for continued business growth.

Proposition developments and business investments

Tatton has expanded its range of Blended Funds to five, adding two risk categories, defensive and aggressive, to meet the risk spectrum used by IFAs, ensuring a better complementary fit with our Managed Portfolio Service. Lower charges and consistent performance from the extended range should capture client assets that cannot access our Managed Portfolio Service.

The Tatton Bespoke Investment Service ("BPS"), created in 2019, is gaining inflows and is now available on several investment platforms. Its competitive, transparent charges offer considerable opportunity to increase assets during the coronavirus recovery. IFAs and investors will be seeking price value and we should benefit from existing supplier disturbance created by the lockdown.

We expanded our business development capability, adding office-based lead generation to support our field-based team. This reinforces our investment in sales and communications marketing resource to grow the number of firms using Tatton, in particular Tenet. We are now deepening relationships with more adviser firms through white label and investment support for larger firms.

We appointed a Deputy Head of Investment and created a new role of Chief Economist, as well as recruiting a Chief Investment Strategist. Greater strength and depth within our investment team will help extend our investment offering across a wider range of asset allocation requirements, allowing us to reach an ever-increasing adviser target audience.

Investment portfolio returns

1 April 2019 – 31 March 2020

Tatton Fund Performance (%) – core produce set (1/4/2019–31/03/2020 after DFM charge and fund costs)

	Tatton Active	Tatton Tracker	Tatton Hybrid	Tatton Ethical	IA Sector*
Defensive	(1.7)	(1.1)	(1.4)	(0.8)	(3.5)
Cautious	(5.0)	(4.1)	(4.5)	(1.6)	(7.1)
Balanced	(7.5)	(6.4)	(7.0)	(2.2)	(7.4)
Active	(10.1)	(8.7)	(9.4)	(3.0)	(7.7)
Aggressive	(12.5)	(11.0)	(11.8)	(3.5)	(8.1)
Global Equity	(7.1)	(6.2)	(6.6)	(3.6)	(8.1)

Since launch 1/2013

Tatton Fund Performance (%) – core produce set (1/1/2013–31/03/2020, annualised, after DFM charge and fund costs)

	Tatton Active	Tatton Tracker	Tatton Hybrid	IA Sector*
Defensive	4.3	4.6	4.4	3.5
Cautious	5.4	5.4	5.4	4.2
Balanced	6.1	6.1	6.2	5.1
Active	6.9	7.0	7.0	6.0
Aggressive	7.1	7.6	7.4	6.0

* IA – Investment Association managed fund peer group with comparable asset allocation characteristics.

2019/2020 capital markets and returns

Global growth slowed notably in 2019 and although 2020 brought promising early signs of a recovery, we were waiting for tangible improvement. Meanwhile, capital markets were banking on a renewed monetary push from central banks and a steadily rebounding global economy showing up in the economic dataflow. Easing trade tensions between the US and China, plus the manufacturing sector emerging from its third midcycle slowdown of the past decade, had many investors decidedly bullish. As a result, the equity rally building since last autumn continued until mid-February, despite corporate results failing to meet lofty expectations.

Although the coronavirus was initially brushed off as a problem confined to the Asia-Pacific region, similar to the 2003 SARS outbreak, the world woke up to the global pandemic threat – and its economic implications – on 20 February. From this point, asset markets responded with the broadest and steepest multi-asset sell-off in history. Prices only stabilised after the announcement of fiscal and monetary support measures of unprecedented dimension and reach. Temporarily removing the risk of a devastating global credit default cycle, together with pledges of limitless “buyer-of-last-resort” liquidity, has led to a V-shaped recovery in asset markets which is looking increasingly less likely for the underlying economy.

This leaves stock market valuations in early June even more extended than those seen in February, yet with a much more uncertain outlook. Investment managers cannot apply historic experience to this situation full of “unknown unknowns”, except to observe that – similar to the aftermath of the global financial crisis – the enormous injection of financial support is finding its way into asset price inflation rather than the traditional price inflation most would expect.

Immense monetary and fiscal support measures, together with the need to upgrade healthcare provisions and update elements of the global supply chain, could create the capex demand volumes that had been lacking in the previous decade – or create inflationary pressures while growth remains subdued. We will use the discipline and rigour of our investment approach to position clients' portfolios to benefit from either outcome, without compromising investment risk.

In the prevailing market environment, we are satisfied with our portfolio construction and management on behalf of our investors. While we share the disappointment of poor capital market returns overall, this 2020 market crash has borne fewer surprises than retail investors experienced during the 2008/2009 bear market. By holding our nerve amid the market chaos around us, our response ensured portfolios stayed within the boundaries of what our risk profiles suggested was possible, while fully participating in the risk asset rebound that followed.

Outlook 2020

Global crises provide catalysts for change and Tatton is well positioned for the post-lockdown environment. We see a number of positives for our business model as more advisers and clients become comfortable with digital engagement, which appeals to our low-cost operating model. Our cultural agility helps us adapt to new relationship dynamics and we will enhance this capability with more "distance business" throughout 2020.

The post-lockdown environment will be highly competitive. Tatton was deliberately very visible during the crisis, offering a viable alternative should existing supplier disturbance require advisers to seek new arrangements for their clients. We will continue to provide responsive information and insight, and will enhance our digital capability to engage with the adviser community in innovative ways.

LOTHAR MENTEL
CHIEF INVESTMENT OFFICER

CHIEF FINANCIAL OFFICER'S REPORT

Growth and long-term value creation

Overview

I am pleased to report that the Group has continued to make good progress and has delivered another year of double-digit growth in both revenue and adjusted operating profits* with strong performances from both Tatton and Paradigm.

Record revenue and profits

Revenue – Group reported revenue increased by 22.0% to £21.369 million (2019: £17.518 million) and includes £1.2m relating to the change in the VAT treatment of Tatton's investment management services which is explained below.

Tatton revenue increased 27.2% to £15.924 million (2019: £12.521 million) supported by the continued growth of AUM, which ended the year at £6.651 billion (2019: £6.068 billion), an increase of 9.6% despite the impact of COVID-19 related market deterioration which occurred towards the end of the financial year. The growth of AUM was driven by strong net inflows in the year at £1.129 billion, an average of £94.1m per month.

Paradigm continues to make progress following the amalgamation of Paradigm Mortgages and Paradigm Consulting which was announced at the interim period, with revenue increasing 9.6% to £5.426 million (2019: £4.949 million). Mortgages member firms increased to 1,544 (2019: 1,392) driving an increase of 17.5% in gross lending from completions to £9.86 billion (2019: £8.39 billion), Consulting members increased to 394 (2019: 390).

Profit – The Group delivered adjusted operating profit* of £9.076 million (2019: £7.308 million), an increase of 24.2% and adjusted operating profit margin increased to 42.5% (2019: 41.7%). Total Group operating profit was £10.302 million (2019: £5.925 million) after crediting separately disclosed items of £1.226 million.

Tatton continues to make investments which underpin our growth, including updating IT systems and the new online portal. In the second half of the year we have added new resource, including both investment personnel and sales and marketing resource to help drive and support future growth; accordingly, adjusted operating profit* increased 20.9% to £8.910 million (2019: £7.371 million) and its margin slightly decreased to 56.0% (2019: 58.9%). Tatton's continued strong growth has ensured it is now the largest part of the Group, contributing 74.5% of the revenue and 98.2% of the adjusted operating profit* (see note 4), a trend that is expected to continue. Paradigm's adjusted operating profit* contributed £2.128 million (2019: £1.818 million), with margin of 39.2% (2019: 36.7%).

Return on capital employed is 48.8% (31 March 2019: 47.8%). The Group remains capital light and makes efficient use of the capital employed to generate strong returns and create value for our shareholders.

Change in VAT treatment

During the year, the Group has agreed with HMRC that Tatton's supplies of discretionary fund management services in respect of model investment portfolios are exempt from VAT. As a result, the Group has received a VAT refund relating to the period from May 2015 to March 2019 of £1.7m. The refund has been recognised as exceptional income in the current year results, offset by professional fees of £0.1m. The current year impact of £1.2m has been recognised within revenue, and also an increase in costs of £0.2m relating to the irrecoverable element of input VAT.

Separately disclosed items

Separately disclosed items include the cost of share-based payments of £0.108 million, amortisation of customer relationship intangible assets of £0.060 million, £0.097 million of acquisition-related fees, £0.097 million of restructuring costs and a credit relating to the treatment of VAT of £1.588 million, see note 6 to the Group financial statements. Although some of these items may recur from one period to the next, operating profit has been adjusted for these items to give better clarity of the underlying performance of the Group. The Alternative Performance Measures ("APMs") are consistent with how the business performance is planned and reported within the internal management reporting to the Board. Some of these measures are also used for the purpose of setting remuneration targets.

Earnings per share

Basic earnings per share increased 72.4% to 14.98p (2019: 8.69p). Adjusted earnings per share* increased 19.5% to 13.13p (2019: 10.99p) and adjusted fully diluted earnings per share increased 19.8% to 12.00p (2019: 10.02p).

Cash flow

The Group continued to see healthy cash generation. Net cash generated from operating activities before exceptional items was £9.831 million (2019: £8.011 million), 108.3% of adjusted operating profit*. Exceptional items totalled £1.394 million and net cash generated from operating activities was £8.947 million (2019: £6.136 million). There has been an increase in the level of income tax paid in the year as Tatton now pays its quarterly instalments earlier in line with the requirements for "very large" companies. Tax paid in the year was £2.278 million (2019: £1.366 million) and dividends paid in the year totalled £4.9 million (2019: £4.0 million). The Group made intangible and tangible asset investments of £0.565 million and ended the year with cash on the balance sheet of £12.757 million (2019: £12.192 million).

Dividends and capital allocation

The Board is recommending a final dividend of 6.4p. When added to the interim dividend of 3.2p this gives a full year dividend of 9.6p. This proposed dividend reflects both our cash performance in the period and our underlying confidence in our business. Dividend cover (being the ratio of earnings per share before exceptional items and share-based payment charges) is 1.9 times. If approved at the Annual General Meeting the final dividend will be paid on 28 August 2020 to shareholders on the register on 17 July 2020. Our objective is to maximise long-term shareholder returns through a disciplined deployment of cash. To support this, we have adopted a cash allocation policy that allows for: investment in capital projects that support growth; regular returns to shareholders from our free cash flow; acquisitions to supplement our existing portfolio of business; and an efficient balance sheet appropriate to the Company's investment requirements.

Statement of financial position

The Group continues to strengthen its balance sheet and net assets increased to £17.778 million (2019: £15.288 million). Tangible and intangible assets (excluding goodwill) totalled £2.529 million (2019: £0.602 million), increasing in the year due to recognition of a customer relationships intangible asset of £1.196 million on the acquisition of Sinfonia and the adoption of IFRS 16, with further increases due to investments made in both systems and infrastructure. Goodwill totalled £6.254 million (2019: £4.917 million), the increase again due to the acquisition of Sinfonia in September 2019.

New reporting standards

The Group has adopted IFRS 16 'Leases' with effect from 1 April 2019 using the modified retrospective approach, under which method prior year comparatives have not been restated, with the right-of-use asset equal to the lease liability at transition date. The net impact on the balance sheet is a reduction in net assets of £0.1m at March 2020 and there is no material impact on the Group's KPIs. Further details and the impact are set out in note 2.5 in the financial statements.

Risk management and the year ahead

Risk is managed closely and is spread across our businesses and managed to individual materiality. Our key risks have been referenced in our full Annual Report. We choose key performance indicators that reflect our strategic priorities of investment, growth and profit. These KPIs are part of our day to day management of the business and in the year ahead we will focus on growth and value creation. In this way we aim to deliver continued value to shareholders.

The Strategic Report has been approved and authorised for issue by the Board of Directors and signed on their behalf on 15 June 2020 by:

PAUL EDWARDS
CHIEF FINANCIAL OFFICER

* Alternative performance measures are detailed in note 23.

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME
For the year ended 31 March 2020

	Note	**31-Mar 2020 (£'000)**	31-Mar 2019 (£'000)
Revenue		**21,369**	17,518
Other exceptional income		**1,588**	–
Administrative expenses		**(12,655)**	(11,593)
Operating Profit		**10,302**	5,925
– Share-based payment costs	6	**108**	874
– Amortisation of intangibles – customer relationships	6	**60**	–
– Exceptional items	6	**(1,394)**	509
Adjusted Operating Profit (before separately disclosed items)[1]		**9,076**	7,308
Finance (costs)/income	7	**(6)**	187
Profit before tax		**10,296**	6,112
Taxation charge	8	**(1,933)**	(1,255)
Profit attributable to shareholders		**8,363**	4,857

Earnings per share – Basic	9	**14.98p**	8.69p
Earnings per share – Diluted	9	**14.54p**	7.92p
Adjusted earnings per share – Basic[2]	9	**13.13p**	10.99p
Adjusted earnings per share – Diluted[2]	9	**12.00p**	10.02p

1 Adjusted for exceptional items, amortisation on client relationship intangibles and share-based payments. See note 23.

2 Adjusted for exceptional items, amortisation on client relationship intangibles and share-based payments and the tax thereon. See note 23.

All revenue, profit and earnings are in respect of continuing operations.

There were no other recognised gains or losses other than those recorded above in the current or prior year and therefore a Statement of Other Comprehensive Income has not been presented.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2020

	Note	**31-Mar 2020 (£'000)**	31-Mar 2019 (£'000)
Non-current assets			
Goodwill	11	**6,254**	4,917
Intangible assets	12	**1,495**	223
Property, plant and equipment	13	**1,034**	349
Deferred tax assets	16	**–**	104
Total non-current assets		**8,783**	5,593
Current assets			
Trade and other receivables	14	**3,431**	2,508
Cash and cash equivalents		**12,757**	12,192
Total current assets		**16,188**	14,700
Total assets		**24,971**	20,293
Current liabilities			
Trade and other payables	15	**(6,186)**	(4,521)
Corporation tax		**(199)**	(484)
Total current liabilities		**(6,385)**	(5,005)
Non-current liabilities			
Other payables	15	**(702)**	–
Deferred tax liabilities	16	**(106)**	–
Total non-current liabilities		**(808)**	–
Total liabilities		**(7,193)**	(5,005)
Net assets		**17,778**	15,288
Equity attributable to equity holders of the Company			
Share capital	18	**11,182**	11,182
Share premium account		**8,718**	8,718
Own shares	19	**(996)**	–
Other reserve		**2,041**	2,041
Merger reserve		**(28,968)**	(28,968)
Retained earnings		**25,801**	22,315
Total equity		**17,778**	15,288

The financial statements on were approved by the Board of Directors on 15 June 2020 and were signed on its behalf by:

PAUL EDWARDS
Director

Company registration number: 10634323

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2020

	Note	Share capital (£'000)	Share premium (£'000)	Own shares (£'000)	Other reserve (£'000)	Merger reserve (£'000)	Retained earnings (£'000)	Total equity (£'000)
At 1 April 2018		11,182	8,718	–	2,041	(28,968)	20,588	13,561
Profit and total comprehensive income		–	–	–	–	–	4,857	4,857
Dividends	9	–	–	–	–	–	(4,025)	(4,025)
Share-based payments	20	–	–	–	–	–	765	765
Deferred tax on share-based payments		–	–	–	–	–	130	130
At 31 March 2019		11,182	8,718	–	2,041	(28,968)	22,315	15,288
Profit and total comprehensive income		**–**	**–**	**–**	**–**	**–**	**8,363**	**8,363**
Dividends	9	**–**	**–**	**–**	**–**	**–**	**(4,920)**	**(4,920)**
Share-based payments	20	**–**	**–**	**–**	**–**	**–**	**86**	**86**
Deferred tax on share-based payments		**–**	**–**	**–**	**–**	**–**	**(43)**	**(43)**
Own shares acquired in the year	19	**–**	**–**	**(996)**	**–**	**–**	**–**	**(996)**
At 31 March 2020		**11,182**	**8,718**	**(996)**	**2,041**	**(28,968)**	**25,801**	**17,778**

The other reserve and merger reserve were created on 19 June 2017 when the Group was formed, where the difference between the Company's capital and the acquired Group's capital has been recognised as a component of equity being the merger reserve. Both the other reserve and the merger reserve are non-distributable.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2020

	Note	**31-Mar 2020 (£'000)**	31-Mar 2019 (£'000)
Operating activities			
Profit for the year		**8,363**	4,857
Adjustments:			
Income tax expense		**1,933**	1,255
Finance costs/(income)	7	**6**	(187)
Depreciation of property, plant and equipment	13	**298**	91
Amortisation of intangible assets	12	**195**	43
Share-based payment expense	6	**108**	874
Changes in:			
Trade and other receivables		**(1,016)**	78
Trade and other payables		**1,338**	491
Exceptional items	6	**(1,394)**	509
Cash generated from operations before exceptional items		**9,831**	8,011
Cash generated from operations		**11,225**	7,502
Income tax paid		**(2,278)**	(1,366)
Net cash from operating activities		**8,947**	6,136
Investing activities			
Payment for the acquisition of subsidiary, net of cash acquired	21	**(2,002)**	–
Purchase of intangible assets		**(271)**	(266)
Purchase of property, plant and equipment		**(294)**	(336)
Net cash used in investing activities		**(2,567)**	(602)
Financing activities			
Interest received		**162**	53
Dividends paid	9	**(4,920)**	(4,025)
Purchase of own shares	19	**(996)**	–
Repayment of lease liabilities		**(61)**	–
Net cash used in financing activities		**(5,815)**	(3,972)
Net increase in cash and cash equivalents		**565**	1,562
Cash and cash equivalents at beginning of period		**12,192**	10,630
Net cash and cash equivalents at end of period		**12,757**	12,192

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Tatton Asset Management plc (“the Company”) is a public company limited by shares. The address of the registered office is Paradigm House, Brooke Court, Lower Meadow Road, Wilmslow, SK9 3ND. The registered number is 10634323.

The Group comprises the Company and its subsidiaries. The Group’s principal activities are discretionary fund management, the provision of compliance and support services to independent financial advisers (“IFAs”), the provision of mortgage adviser support services and the marketing and promotion of Tatton Oak funds.

News updates, regulatory news and financial statements can be viewed and downloaded from the Group’s website, www.tattonassetmanagement.com. Copies can also be requested from: The Company Secretary, Tatton Asset Management plc, Paradigm House, Brooke Court, Lower Meadow Road, Wilmslow, SK9 3ND.

The Company has taken advantage of the exemption in section 408 of the Companies Act 2006 not to present its own income statement.

2 ACCOUNTING POLICIES

The principal accounting policies applied in the presentation of the annual financial statements are set out below.

2.1 Basis of preparation

The financial information, which comprises the Consolidated Statement of Total Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes, is derived from the full Group financial statements for the year ended 31 March 2020. The Group financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as adopted for use in the European Union and International Financial Reporting Interpretations Committee (“IFRIC”) interpretations issued by the International Accounting Standards Board (“IASB”) and the Companies Act 2006. The financial information does not constitute full financial statements within the meaning of section 434 of the Companies Act 2006.

Statutory financial statements for the year ended 31 March 2019 have been delivered to the Registrar of Companies and those for 2020 will be delivered following the Company’s AGM. The auditor has reported on those financial statements: its reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s498 (2) or (3) of the Companies Act 2006.

The consolidated financial statements have been prepared on a going concern basis and prepared on the historical cost basis.

The consolidated financial statements are presented in sterling and have been rounded to the nearest thousand (£’000). The functional currency of the Company is sterling as this is the currency of the jurisdiction where all of the Group’s sales are made.

The preparation of financial information in conformity with IFRSs requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management’s best knowledge of the amount, event or actions, actual events may ultimately differ from those estimates.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in the consolidated financial statements.

2.2 Going concern

These financial statements have been prepared on a going concern basis. The Directors have prepared cash flow projections and are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future. To form the view that the consolidated financial statements should continue to be prepared on an ongoing basis in light of the current COVID-19 pandemic and the resulting economic uncertainty, the Directors have assessed the outlook of the Group by considering various market scenarios and management actions. This review has allowed management to assess the potential impact on income, costs, cash flow and capital and the ability to implement effective management actions that may be taken to mitigate the impact. The Directors have also considered the risks associated with Brexit, including considering the effect on clients' wealth, attitude towards savings and investment and changes in government policy. The Directors do not consider that the impact of Brexit will affect the Group continuing as a going concern. Accordingly, the Directors continue to adopt the going concern basis in preparing these financial statements.

2.3 Basis of consolidation

On 23 February 2017, the Company was incorporated under the name Nadal Listco Limited, which changed to Tatton Asset Management Limited on 31 May 2017. On 19 June 2017, the Company acquired the entire share capital of Nadal Newco Limited via a share for share exchange with the shareholders of Nadal Newco Limited. On 19 June 2017, Tatton Asset Management Limited was re-registered as a public company with the name Tatton Asset Management plc.

2.4 Subsidiaries

The Group's financial statements consolidate those of the Parent Company and all of its subsidiaries as at 31 March 2020. The Parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of 31 March.

All transactions between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a Group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, up to the effective date of disposal, as applicable.

2.5 Adoption of new and revised standards

New and amended IFRS Standards that are effective for the current year
In the current period, the Group, for the first time, has applied IFRS 16 'Leases' (as issued by the IASB in January 2016) which became effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Group was 1 April 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets.

In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The impact of the adoption of IFRS 16 on the Group's consolidated financial statements is described below.

The Group has applied IFRS 16 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of internally applying IFRS 16 is recognised in retained earnings at the date of initial application, however there is no impact on the net assets and retained earnings of the Group at 1 April 2019.

Impact on the new definition of a lease
The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered or modified before 1 April 2019. The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 April 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Group.

Impact on lessee accounting
Former operating leases
IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Group:

a) recognises right-of-use assets and lease liabilities in the Consolidated Statement of Financial Position, initially measured at the present value of the future lease payments;
b) recognises depreciation of right-of-use assets and interest on lease liabilities in the Consolidated Statement of Total Comprehensive Income; and
c) separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the Consolidated Statement of Cash Flows.

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 'Impairment of Assets'. This replaces the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within Other operating expenses in the Consolidated Statement of Total Comprehensive Income.

Financial impact of initial application of IFRS 16
The tables below show the amount of adjustment for each financial statement line item affected by the application of IFRS 16 for the current period.

Impact on profit or loss in the period	£'000
Increase in depreciation[1]	(138)
Increase in finance costs[1]	(22)
Decrease in other operating expenses[1]	150
Decrease in profit for the period	(10)

Impact on earnings per share	p
Increase in earnings per share from continuing operations	
Basic	0.02p
Diluted	0.02p

Impact on assets, liabilities and equity as at 31 March 2020	As if IAS 17 still applied £'000	IFRS 16 adjustments £'000	As presented £'000
Right-of-use asset[1]	–	551	551
Net impact on total assets	**–**	**551**	**551**
Trade and other payables	(103)	103	–
Lease liabilities[1]	–	(650)	(650)
Net impact on total liabilities	**(103)**	**(547)**	**(650)**
Impact on net assets	(103)	4	(99)
Retained earnings	**(103)**	**4**	**(99)**

1 The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets and lease liabilities. It resulted in a decrease in Other operating expenses and an increase in depreciation and interest expense.

	£'000
Operating lease commitments disclosed as at 31 March 2019	778
(Less): short-term leases recognised on a straight-line basis as expense	(28)
	750
Lease liability recognised as at 1 April 2019 discounted using the lessee's incremental borrowing rate at the date of initial application	689
Of which are:	
Current lease liabilities	40
Non-current lease liabilities	649
	689

The application of IFRS 16 has an impact on the consolidated cash flows of the Group. Under IFRS 16, lessees must present:

- short-term lease payments and payments for leases of low-value assets as part of operating activities (the Group has included these payments as part of payments to suppliers and employees);
- cash paid for the interest portion of lease liability as either operating activities or financing activities, as permitted by IAS 7 (the Group has opted to include interest paid as part of operating activities); and
- cash payments for the principal portion for lease liability, as part of financing activities.

Under IAS 17, all lease payments on operating leases were presented as part of cash flows from operating activities. At the reporting date there is no impact on net cash generated by operating activities as no payments have been made against the relevant lease in the period. The adoption of IFRS 16 did not have an impact on net cash flows.

The Group as lessee

The Group assesses whether a contract is or contains a lease at inception of the contract.

The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in substance fixed payments), less any lease incentives;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented within Trade and other payables in the Consolidated Statement of Financial Position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used); and
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are within property, plant and equipment in the Consolidated Statement of Financial Position. The Group applies IAS 36 'Impairment of Assets' to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the property, plant and equipment policy.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient.

Standards in issue not yet effective

The following IFRS and IFRIC interpretations have been issued but have not been applied by the Group in preparing the historical financial information, as they are not as yet effective. The Group intends to adopt these Standards and Interpretations when they become effective, rather than adopt them early.

Effective date 1 January 2020
Amendments to the Conceptual Framework in IFRS Standards
Amendments to IAS 1 'Presentation of Financial Statements'
Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'
Amendments to IFRS 3 'Business Combinations'
Amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosure'

Effective date 1 January 2021
IFRS 17 'Insurance Contracts'
A number of IFRS and IFRIC interpretations are also currently in issue which are not relevant for the Group's activities and which have not therefore been adopted in preparing the annual financial statements.

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

2.6 Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts, VAT and other sales-related taxes. Revenue is reduced for estimated rebates and other similar allowances. Revenue is recognised when control is transferred and the performance obligations are considered to be met.

The Group's revenue is made up of the following principal revenue streams:

- Fees charged to IFAs for compliance consultancy services, which is recognised when performance obligations are met.
- Fees for providing investment platform services. Revenue is recognised on a daily basis, in line with the satisfaction of performance obligations, on the Assets Under Administration held on the relevant investment platform.
- Fees for discretionary fund management services in relation to on-platform investment Assets Under Management ("AUM"). Revenue is recognised daily based on the AUM.
- Fees for mortgage-related services including commissions from mortgage and other product providers and referral fees from strategic partners. Commission is recognised when performance obligations are met.
- Fees for marketing services provided to providers of mortgage and investment products, which is recognised when performance obligations are met.

2.7 Exceptional items

Exceptional items are disclosed and described separately in the Financial statements where it is necessary to do so to provide further understanding of the underlying financial performance of the Group. These include material items of income or expense that are shown separately due to the significance of their nature and amount.

2.8 Interest income and interest expense

Finance income is recognised as interest accrued (using the effective interest method) on funds invested outside the Group. Finance expense includes the cost of borrowing from third parties and is recognised on an effective interest rate basis, resulting from the financial liability being recognised on an amortised cost basis.

2.9 Impairment

Assets which have an indefinite useful life are not subject to amortisation and are tested for impairment at each Statement of Financial Position date. Assets subject to depreciation and amortisation are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Impairment losses on previously revalued assets are recognised against the revaluation reserve as far as this reserve relates to previous revaluations of the same assets. Other impairment losses are recognised in the Statement of Total Comprehensive Income based on the amount by which the carrying value exceeds the recoverable amount. The recoverable amount is the higher of the fair value less the costs to sell, and the value in use.

Impairment losses recognised in respect of cash-generating units ("CGUs") are allocated first to reduce the carrying amount of any goodwill allocated to CGUs and then to reduce the carrying amount of other assets in the unit on a pro rata basis.

The impairment review has also considered the COVID-19 pandemic as a potential indicator of impairment and as a result of this review, none of the assets held by the Group were impaired. See note 11 for further details.

2.10 Goodwill and Intangible assets

Goodwill is initially recognised and measured as set out in note 2.12.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Following initial recognition, intangible assets are held at cost less any accumulated amortisation and any provision for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs).
Intangible assets acquired separately are measured on initial recognition at cost.

Computer software licences acquired are capitalised at the cost incurred to bring the software into use and are amortised on a straight-line basis over their estimated useful lives, which are estimated as being five years. Costs associated with developing or maintaining computer software programs that do not meet the capitalisation criteria under IAS 38 are recognised as an expense as incurred.

Intangible assets acquired in a business combination and recognised separately from goodwill are recognised initially at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, the customer relationship intangible assets have a finite useful life and are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method over their useful lives, estimated at ten years.

Gains and losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying value of the asset. The difference is then recognised in the income statement.

An assessment is made at each reporting date as to whether there is any indication that an asset in use may be impaired. If any such indication exists and the carrying values exceed the estimated recoverable amount at that time, the assets are written down to their recoverable amount. The recoverable amount is measured as the greater of fair value less costs to sell and value in use. Non-financial assets that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

The Directors have reviewed the intangible assets as at 31 March 2020 and have considered the COVID-19 pandemic as a potential indicator of impairment. As a result of the review, it was determined that none of the assets are impaired (2019: none).

2.11 Property, plant and equipment

Property, plant and equipment assets are stated at cost net of accumulated depreciation and accumulated provision for impairment. Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Principal annual rates are as follows:

Computer, office equipment and motor vehicles – 20-33% straight-line.
Fixtures and fittings – 20% straight-line.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on disposal or scrappage of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

2.12 Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred to the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that: deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 'Income Taxes' and IAS 19 'Employee Benefits' respectively; and assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration is remeasured to fair value at subsequent reporting dates with changes in fair value recognised in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

2.13 Leases

Policy applicable from 1 April 2019
The Group has applied the practical expedient to grandfather the definition of a lease at the date of transition. Therefore, this policy applies to all contracts entered into on or after 1 April 2019.

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

The Group recognises a right-of-use ("ROU") asset and a lease liability at the inception date of the lease. The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The ROU assets are subsequently depreciated on a straight-line basis over the shorter of the expected life of the asset and the lease term, adjusted for any remeasurements of the lease liability. At the end of each reporting period, the ROU assets are assessed for indicators of impairment in accordance with IAS 36.
The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. The Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is subsequently measured by adjusting the carrying amount to reflect the interest charge, the lease payments made and any reassessment or lease modifications. The lease liability is remeasured if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Where the Group is an intermediate lessor in a sub-lease, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

Policy applicable before 1 April 2019
Lease agreements which do not transfer substantially all of the risks and rewards of ownership of the leased assets to the Group are classified as operating leases. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. The impact of any lease incentives is spread over the term of the lease.

2.14 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and bank balances for the purpose only of the Consolidated Statement of Cash Flows.

2.15 Financial instruments

Financial assets and financial liabilities are recognised in the Group's Statement of Financial Position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss. Transaction costs directly attributable to the acquisition of financial assets classified as at fair value through profit or loss are recognised immediately in profit or loss.

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and bank balances, loans and borrowings, and trade and other payables.

Trade receivables
Trade receivables do not carry interest and are stated at amortised cost as reduced by appropriate allowances for estimated irrecoverable amounts. They are recognised when the Group's right to consideration is only conditional on the passage of time. Allowances incorporate an expectation of lifetime credit losses from initial recognition and are determined using an expected credit loss approach.

Trade and other payables
Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, where applicable or required. These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial period, which are unpaid.

Financial liabilities at fair value through profit or loss ("FVTPL")
Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) designated as at FVTPL. Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss.

Interest-bearing borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

The Group does not hold or issue derivative financial instruments for trading purposes.

2.16 Taxation

Current tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the Statement of Financial Position date.

Deferred tax
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary difference and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each Statement of Financial Position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the Statement of Financial Position date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off the current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the year
Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

2.17 Retirement benefit costs

The Group pays into personal pension plans for which the amount charged to income in respect of pension costs and other post-retirement benefits is the amount of the contributions payable in the year. Payments to defined contribution retirement benefit scheme are recognised as an expense when employees have rendered service entitling them to the contributions. Differences between contributions payable and paid are accrued or prepaid. The assets of the plans are invested and managed independently of the finances of the Group.

2.18 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the Statement of Financial Position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material). When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2.19 Equity, reserves and dividend payments

Share capital represents the nominal value of shares that have been issued. Retained earnings include all current and prior period retained profits or losses.

Dividend distributions payable to equity shareholders are included in other liabilities when the dividends have been approved in a general meeting prior to the reporting date.

2.20 Employee Benefit Trust

The Company provides finance to the EBT to purchase the Company's shares on the open market in order to meet its obligation to provide shares when an employee exercises awards made under the Group's share-based payment schemes. Administration costs connected with the EBT are charged to the Consolidated Statement of Comprehensive Income. The cost of shares purchased and held by the EBT is deducted from equity. The assets held by the EBT are consolidated into the Group's financial statements.

2.21 Share-based payments

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Fair value is measured by use of the Black-Scholes model or Monte Carlo model as appropriate.

2.22 Operating segments

The Group comprises the following two operating segments which are defined by trading activity:

- Tatton – investment management services
- Paradigm – the provision of compliance and support services to IFAs and mortgage advisers

The Board is considered to be the chief operating decision maker.

Following changes to the structure of the Group's internal organisation, and subsequent changes to the way in which financial and management information is presented to both the Board and the Executive Committee, the composition of the Group's reportable segments changed in the financial year ended 31 March 2020.

The change to the Group's organisation structure was the establishment of the Paradigm division in order to bring together the activities of Paradigm Consulting and Paradigm Mortgages under single leadership. The change allows the needs of independent financial advisers and mortgages advisers to be better met through an integrated approach. The services being provided to these customers include compliance and support services. In addition, the Tatton division now includes wrap-related revenue which was previously included in the Paradigm Consulting division. This change brings the management and responsibility for all asset-related management and services into one division.

As a result of these changes, activities previously reported under Paradigm Consulting have been split between Tatton and Paradigm, with Paradigm Mortgages being reported under Paradigm.

The Revenue, Operating Profit and Adjusted Operating Profit* by segment disclosure note for the year ended March 2019 has been amended as follows:

(i) Revenue by segment

	Year ended 31 March 2019		
	As reported £'000	Adjustment £'000	Restated £'000
Tatton	8,732	3,789	12,521
Paradigm	–	4,949	4,949
Paradigm Consulting	6,049	(6,049)	–
Paradigm Mortgages	2,689	(2,689)	–
Central	48	–	48
Total	**17,518**	**–**	**17,518**

(ii) Operating Profit by segment

	Year ended 31 March 2019		
	As reported £'000	Adjustment £'000	Restated £'000
Tatton	4,098	2,743	6,841
Paradigm	–	1,805	1,805
Paradigm Consulting	2,983	(2,983)	–
Paradigm Mortgages	1,565	(1,565)	–
Central	(2,721)	–	(2,721)
Total	**5,925**	**–**	**5,925**

(iii) Adjusted Operating Profit by segment*

	Year ended 31 March 2019		
	As reported £'000	Adjustment £'000	Restated £'000
Tatton	4,628	2,743	7,371
Paradigm	–	1,818	1,818
Paradigm Consulting	2,996	(2,996)	–
Paradigm Mortgages	1,565	(1,565)	–
Central	(1,881)	–	(1,881)
Total	**7,308**	**–**	**7,308**

* Alternative performance measures are detailed in note 23.

2.23 Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, which are described above, management have made judgements and estimations about the future that have an effect on the amounts recognised in the financial statements. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Changes for accounting estimates would be accounted for prospectively under IAS 8.

Goodwill and client relationship intangibles
Critical judgement
Impairment of goodwill and client relationship intangibles
The impact of COVID-19 has been considered as a potential indicator of impairment of goodwill and intangible assets. Impairment exists when the carrying value of an asset or cash-generating unit ('CGU') exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of impairment testing, the recoverable amount of goodwill is determined using a discounted cash flow model, as detailed in note 11. The results of the calculation indicate that goodwill and client relationship intangibles are not impaired.

Client relationship intangibles
Critical judgements
Client relationship intangibles purchased through corporate transactions
When the Group purchases client relationships through transactions with other corporate entities, a judgement is made as to whether the transaction should be accounted for as a business combination or as a separate purchase of intangible assets. In making this judgement, the Group assesses the assets, liabilities, operations and processes that were the subject of the transaction against the definition of a business combination in IFRS 3. In particular, consideration is given to the scale of the operations subject to the transaction and whether ownership of a corporate entity has been acquired, among other factors.

Business combinations
Critical judgement
Treatment and fair value of consideration transferred
On 30 September 2019, the group acquired the entire share capital of Sinfonia Asset Management Limited ("Sinfonia"). The group accounted for the transaction as a business combination. Business combinations and acquisitions require a fair value exercise to be undertaken to allocate the purchase price to the fair value of the identifiable assets acquired and the liabilities assumed. The determination of the fair value of the asset and liabilities is based, to a considerable extent, on management's judgement. The amount of goodwill initially recognised as a result of a business combination is dependent on the allocation of this purchase price to the identifiable assets and liabilities with any unallocated portion being recorded as goodwill.

As described in note 21 to the financial statements, the purchase price payable for the acquisition is split into a number of different parts. The payment of certain elements has been deferred. At 31 March 2020, two elements of deferred consideration remained unvested and subject to ongoing vesting conditions.

Vesting of the earn-out consideration is conditional on achieving certain operational targets.

Estimation uncertainty
Valuation of the earn-out consideration
The value of earn-out consideration is variable, dependent on performance by the acquired business against certain operational targets by 30 September 2020 and 30 September 2021. The estimated value of earn-out consideration that will be payable at these dates is £344,000, based on projections of growth in funds under management over that period.

If qualifying funds under management do not exceed £98 million then no earn-out consideration is payable.
If qualifying funds under management at 30 September 2020 are £10 million higher or lower than management's estimate then the earn-out consideration would be £200,000 higher or lower and the charge to profit or loss in the year to 31 March 2020 would be £200,000 higher or lower.

Under the terms of the agreements, the maximum possible payment under the earn-out and incentivisation awards is capped at £689,000; which represents qualifying funds under management of approximately £132.5 million at 30 September 2021.

Share-based payments
Estimation uncertainty
Given the significance of share-based payments as a form of employee remuneration for the Group, share-based payments have been included as a significant accounting estimate. The principal estimations relate to:

- forfeitures (where awardees leave the Group as "bad" leavers and therefore forfeit unvested awards); and
- the satisfaction of performance obligations attached to certain awards.

These estimates are reviewed regularly and the charge to the Statement of Total Comprehensive Income is adjusted appropriately (at the end of the relevant scheme as a minimum). The sensitivity analysis carried out shows that if it was considered that 100% of the options would vest, the charge for the year would increase by £1,420,000; an increase of 10% in the vesting assumptions would increase the charge in the year by £185,000. In considering the level of satisfaction of performance obligations, the Group's forecast has been reviewed and updated for the expected impact of COVID-19 pandemic, various market scenarios and management actions. This forecast has been used to estimate the relevant vesting assumptions for the EMI schemes in place.

There are no other judgements or assumptions made about the future, or any other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

2.24 Alternative performance measures

In reporting financial information, the Group presents alternative performance measures ("APMs") which are not defined or specified under the requirements of IFRSs. The Group believes that these APMs provide users with additional helpful information on the performance of the business. The APMs are consistent with how the business performance is planned and reported within the internal management reporting to the Board. Some of these measures are also used for the purpose of setting remuneration targets. The APMs used by the Group are set out in note 23 including explanations of how they are calculated and how they can be reconciled to a statutory measure where relevant. There is also further information on separately disclosed items in note 6.

3 CAPITAL MANAGEMENT

The Group's objectives when managing capital are i) to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; ii) to maintain a strong capital base and utilise it efficiently to support the development of its business; and iii) to comply with the regulatory capital requirements set by the FCA. Capital adequacy and the use of regulatory capital are monitored by the Group's management and Board. There is one active regulated entity in the Group: Tatton Investment Management Limited, regulated by the FCA.

Regulatory capital is determined in accordance with the requirements of the Capital Requirements Directive IV prescribed in the UK by the FCA. The Directive requires continual assessment of the Group's risks in order to ensure that the higher of Pillar 1 (Minimum Capital Requirements) and Pillar 2 (Supervisory Review) requirements is met.

Pillar 1 imposes a minimum capital requirement on investment firms which is calculated as the higher of the sum of the credit and market risk capital requirements and the fixed overheads requirement (“FOR”). The FOR equates to 25% of the fixed overheads reported in the most recent audited financial statements.

Pillar 2 requires investment firms to assess firm-specific risks not covered by the formulaic requirements of Pillar 1, the objective of this being to ensure that investment firms have adequate capital to enable them to manage their risks. The Group completes its assessment of regulatory capital requirements using its Internal Capital Adequacy Assessment Process (“ICAAP”) under Pillar 2, which is a forward looking exercise that includes stress testing on major risks, such as a significant market downturn, and identifying mitigating action.

As required by the FCA, Tatton Investment Management Limited holds capital based on a multiple of Pillar 1 and maintains a significant surplus over this requirement at all times.

The Group manages its total equity which totalled £17.8 million as at 31 March 2020 (2019: £15.3 million). Surplus regulatory capital was maintained throughout the year at both a consolidated Group level and individual regulated entity level. There were no changes in the Group’s approach to capital management during the year.

4 SEGMENT REPORTING

Information reported to the Board of Directors as the chief operating decision maker for the purposes of resource allocation and assessment of segmental performance is focused on the type of revenue. The principal types of revenue are discretionary fund management and the marketing and promotion of the funds run by the companies under Tatton Capital Limited (“Tatton”) and the provision of compliance and support services to IFAs and mortgage advisers (“Paradigm”).

The Group’s reportable segments under IFRS 8 are therefore Tatton, Paradigm, and “Central” which contains the Operating Group’s central overhead costs. The operating segments disclosed have changed during the reporting period, see note 2.22.

The principal activity of Tatton is that of Discretionary Fund Management (“DFM”) of investments on-platform and the provision of investment wrap services.

The principal activity of Paradigm is that of provision of support services to IFAs and mortgage advisers.

For management purposes, the Group uses the same measurement policies used in its financial statements.
The following is an analysis of the Group’s revenue and results by reportable segment:

Year ended 31 March 2020	Tatton (£’000)	Paradigm (£’000)	Central (£’000)	Group (£’000)
Revenue	**15,924**	**5,426**	**19**	**21,369**
Other exceptional income	**1,588**	**–**	**–**	**1,588**
Administrative expenses	**(7,204)**	**(3,362)**	**(2,089)**	**(12,655)**
Operating Profit/(Loss)	**10,308**	**2,064**	**(2,070)**	**10,302**
Share-based payments	**–**	**–**	**108**	**108**
Exceptional items	**(1,458)**	**64**	**–**	**(1,394)**
Amortisation of client relationship intangible assets	**60**	**–**	**–**	**60**
Adjusted Operating Profit/(Loss) (before separately disclosed items)*	**8,910**	**2,128**	**(1,962)**	**9,076**
Finance (costs)/income	**(20)**	**13**	**1**	**(6)**
Profit/(loss) before tax	**10,288**	**2,077**	**(2,069)**	**10,296**

Year ended 31 March 2019 (restated, see note 2.22)	Tatton (£'000)	Paradigm (£'000)	Central (£'000)	Group (£'000)
Revenue	12,521	4,949	48	17,518
Administrative expenses	(5,680)	(3,144)	(2,769)	(11,593)
Operating Profit/(Loss)	6,841	1,805	(2,721)	5,925
Share-based payments	34	–	840	874
Exceptional charges	496	13	–	509
Adjusted Operating Profit/(Loss) (before separately disclosed items)*	7,371	1,818	(1,881)	7,308
Finance income	–	185	2	187
Profit/(loss) before tax	6,841	1,990	(2,719)	6,112

All turnover arose in the United Kingdom.

* Alternative performance measures are detailed in note 23.

5 OPERATING PROFIT

The operating profit and the profit before taxation are stated after charging/(crediting):

	31-Mar 2020 (£'000)	31-Mar 2019 (£'000)
Amortisation of software	**135**	43
Depreciation of property, plant and equipment	**160**	91
Depreciation of right-of-use assets	**138**	–
Separately disclosed items (note 6)	**(1,226)**	1,383
Services provided by the Group's auditor:		
Audit of the statutory consolidated and Company financial statements of TAM plc	**34**	33
Audit of subsidiaries	**58**	40
Other fees payable to auditor:		
Other taxation advisory services	**–**	38
Non-audit services	**86**	10

Total audit fees were £92,000 (2019: £73,000). Total non-audit fees payable to the auditor were £86,000 (2019: £48,000).

6 SEPARATELY DISCLOSED ITEMS

	31-Mar 2020 (£'000)	31-Mar 2019 (£'000)
IPO costs	**–**	13
Project set-up costs related to transferring Authorised Corporate Director	**–**	293
New fund set-up costs	**–**	203
Restructuring costs	**97**	–
Acquisition-related expenses	**97**	–
VAT reclaim	**(1,588)**	–
Total exceptional items	**(1,394)**	509
Share-based payments	**108**	874
Amortisation of client relationship intangible assets	**60**	–
Total separately disclosed items	**(1,226)**	1,383

Separately disclosed items shown separately on the face of the Consolidated Statement of Total Comprehensive Income or included within administrative expenses reflect costs and income that do not relate to the Group's normal business operations and that are considered material (individually (or in aggregate if of a similar type) due to their size or frequency.

Exceptional items

On 30 September 2019 the Group acquired the share capital of Sinfonia Asset Management Limited (see note 21) and incurred acquisition-related costs of £97,000. These costs are part of separately disclosed items within administrative expenses in the Consolidated Statement of Total Comprehensive Income.

The restructuring charge relates to the rationalisation and restructuring of various departments and functions. The headcount reduction resulted in redundancy costs, payment in lieu of notice, settlement and other restructuring-related costs. These have been excluded from underlying earnings in view of their one-off nature.

During the year, the Group has agreed with HMRC that Tatton's supplies of discretionary fund management services in respect of model investment portfolios are exempt from VAT. As a result, the Group has recognised income of £1,756,000 relating to the 4 year period ending 31 March 2019, £1,675,000 of which has been received from HMRC as a VAT refund. This is offset by £168,000 of professional fees. The Group has reflected this change in treatment of revenue and the level of irrecoverable input VAT in revenue and administrative expenses from 1 April 2019.

During the financial year ended 31 March 2019, the Group incurred exceptional one-off costs of £496,000 which related to the funds in Tatton. Tatton transferred its Authorised Corporate Director, who acts on behalf of the Company to administer the funds, and this transfer incurred significant project management charges. In addition, Tatton launched new funds in the year and incurred material set-up costs as part of the process; both are included within exceptional items and separately disclosed items within administrative expenses in the Consolidated Statement of Total Comprehensive Income.

Various legal and professional costs incurred in relation to the IPO of the Group in July 2017 are shown as part of separately disclosed items within administrative expenses in the Consolidated Statement of Total Comprehensive Income in the prior year.

Share-based payments

Share-based payments is a recurring item, though the value will change depending on the estimation of the satisfaction of performance obligations attached to certain awards. It has been excluded from the core business operating profit since it is a significant non-cash item. Underlying profit, being adjusted operating profit, represents largely cash-based earnings and more directly relates to the financial reporting period.

Amortisation of client relationship intangible assets

Payments made for the introduction of customer relationships that are deemed to be intangible assets are capitalised and amortised over their useful life, which has been assessed to be ten years. This amortisation charge is recurring over the life of the intangible asset, though has been excluded from the core business operating profit since it is a significant non-cash item. Underlying profit, being adjusted operating profit, represents largely cash-based earnings and more directly relates to the financial reporting period.

7 FINANCE (COSTS)/INCOME

	31-Mar 2020 (£'000)	31-Mar 2019 (£'000)
Bank interest income	**3**	2
Other interest income	**13**	214
Interest expense on lease liabilities	**(22)**	–
Bank charges	**–**	(29)
	(6)	187

8 TAXATION

	31-Mar 2020 (£'000)	31-Mar 2019 (£'000)
Current tax expense		
Current tax on profits for the period	**1,986**	1,318
Adjustment in respect of previous years	**7**	(74)
	1,993	1,244
Deferred tax expense		
Share-based payments	**(12)**	(19)
Origination and reversal of temporary differences	**57**	30
Adjustment in respect of previous years	**(95)**	–
Effect of rate changes	**(10)**	–
Total tax expense	**1,933**	1,255

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the UK applied to profit for the year are as follows:

	31-Mar 2020 (£'000)	31-Mar 2019 (£'000)
Profit before taxation	**10,296**	6,112
Tax at UK corporation tax rate of 19% (2019: 19%)	**1,956**	1,161
Expenses not deductible for tax purposes	**87**	25
Adjustments in respect of previous years	**(88)**	(74)
Differences in tax rates	**(10)**	(2)
Share-based payments	**(12)**	145
Total tax expense	**1,933**	1,255

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. In the 11 March 2020 Budget, it was announced that the UK corporation tax rate will remain at the current level of 19% and not reduce to 17% from 1 April 2020. Deferred tax is calculated using the rate expected to apply when the relevant timing differences are forecast to unwind.

9 EARNINGS PER SHARE AND DIVIDENDS

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares during the year.

Number of shares

	2020	2019
Basic		
Weighted average number of shares in issue	**55,907,513**	55,907,513
Effect of own shares held by an EBT	**(72,355)**	–
	55,835,158	55,907,513
Diluted		
Weighted average number of shares (diluted)[1]	**57,529,989**	61,313,712
Adjusted diluted		
Adjusted diluted weighted average number of options and shares for the year[2]	**61,075,935**	61,313,712

1. The weighted average number of shares is diluted due to the effect of potentially dilutive contingent issuable shares from share option schemes.
2. The dilutive shares used for this measure differ from that used for statutory dilutive earnings per share; the future value of service costs attributable to employee share options is ignored and contingently issuable shares for Long-Term Incentive Plan ("LTIP") options are assumed to fully vest. The Directors have selected this measure as it represents the underlying effective dilution by offsetting the impact to the calculation of basic shares of the purchase of shares by the EBT to satisfy options.

Own shares held by an EBT represents the Company's own shares purchased and held by the Employee Benefit Trust (EBT), shown at cost. In the year ending 31 March 2020 the EBT purchased 413,411 (2019: none) of the Company's own shares.

	31-Mar 2020 (£'000)	31-Mar 2019 (£'000)
Earnings attributable to ordinary shareholders		
Basic and diluted profit for the period	**8,363**	4,857
Share-based payments – IFRS 2 option charges	**108**	874
Amortisation of intangible assets – customer relationships	**60**	–
Exceptional (income)/costs – see note 6	**(1,394)**	509
Tax impact of adjustments	**194**	(97)
Adjusted basic and diluted profits for the period and attributable earnings	**7,331**	6,143
Earnings per share (pence) – Basic	**14.98**	8.69
Earnings per share (pence) – Diluted	**14.54**	7.92
Adjusted earnings per share (pence) – Basic	**13.13**	10.99
Adjusted earnings per share (pence) – Diluted	**12.00**	10.02

Dividends

The Directors consider the Group's capital structure and dividend policy at least twice a year ahead of announcing results and do so in the context of its ability to continue as a going concern, to execute the strategy and to invest in opportunities to grow the business and enhance shareholder value.

During the year, TAM plc paid the final dividend related to the year ended 31 March 2019 of £3,131,000, representing a payment of 5.6p per share. In addition, the Company paid an interim dividend of £1,789,000 (2019: £1,565,000) to its equity shareholders. This represents a payment of 3.2p per share (2019: 2.8p per share).

The Company's dividend policy is described in the Directors' Report. At 31 March 2020, the Company's distributable reserves were £25.8 million (2019: £22.3 million).

10 STAFF COSTS

The staff costs shown below exclude key management compensation which is shown separately below.

	31-Mar 2020 (£'000)	31-Mar 2019 (£'000)
Wages, salaries and bonuses	**5,995**	4,389
Social security costs	**594**	648
Pension costs	**160**	110
Termination benefits	**88**	–
Share-based payments	**123**	874
	6,960	6,021

The average monthly number of employees during the year was as follows:

	31-Mar 2020	31-Mar 2019
Administration	**79**	74
Key management	**3**	3
	82	77

Key management compensation

The remuneration of the statutory Directors who are the key management of the Group is set out below in aggregate for each of the key categories specified in IAS 24 'Related Party Disclosures'.

	31-Mar 2020 (£'000)	31-Mar 2019 (£'000)
Short-term employee benefits	**940**	884
Post-employment benefits	**11**	14
Other long-term benefits	**3**	3
Share-based payments	**(15)**	587
	939	1,488

In addition to the remuneration above, the Non-Executive Chairman and Non-Executive Directors have submitted invoices for their fees as follows:

	31-Mar 2020 (£'000)	31-Mar 2019 (£'000)
Total fees	**160**	160

The remuneration of the highest paid Director was:

	31-Mar 2020 (£'000)	31-Mar 2019 (£'000)
Total	**347**	343

The highest paid Director did not exercise any share options in the period. There were no share options granted to the highest paid Director in the year.

11 GOODWILL

	Goodwill (£'000)
Cost and carrying value at 31 March 2019	4,917
Recognised on acquisition of subsidiary	1,337
Cost and carrying value at 31 March 2020	**6,254**

The carrying value of goodwill includes £5.9 million allocated to the Tatton operating segment and CGU. This is made up of £2.5 million arising from the acquisition in 2014 of an interest in Tatton Oak Limited by Tatton Capital Limited consisting of the future synergies and forecast profits of the Tatton Oak business, £2.0 million arising from the acquisition in 2017 of an interest in Tatton Capital Group Limited and £1.3 million of goodwill generated in the year on the acquisition of Sinfonia, see note 21. The carrying value of goodwill also includes £0.4 million allocated to the Paradigm operating segment and CGU relating to the acquisition of Paradigm Mortgage Services LLP.

None of the goodwill is expected to be deductible for income tax purposes.

Impairment loss and subsequent reversal

Goodwill is subject to an annual impairment review based on an assessment of the recoverable amount from future trading. Where, in the opinion of the Directors, the recoverable amount from future trading does not support the carrying value of the goodwill relating to a subsidiary company then an impairment charge is made. Such impairment is charged to the Statement of Total Comprehensive Income.

Impairment testing

For the purpose of impairment testing, goodwill is allocated to the Group's operating companies which represents the lowest level within the Group at which the goodwill is monitored for internal management accounts purposes. Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units ("CGUs") or group of units that are expected to benefit from that business combination. The Directors test goodwill annually for impairment, or more frequently if there are indicators that goodwill might be impaired. The impairment review considered the COVID-19 pandemic as a potential indicator of impairment, consequently, the Group carried out an exercise The Directors have reviewed the carrying value of goodwill at 31 March 2020 and do not consider it to be impaired.

Growth rates

The value in use is calculated from cash flow projections based on the Group's forecasts for the year ended 31 March 2021 which are extrapolated for a further four years. The Group's latest financial forecasts, which cover a three-year period, are reviewed by the Board.

Discount rates

The pre-tax discount rate used to calculate value is 7.7% (2019: 8.3%). The discount rate is derived from a benchmark calculated from a number of comparable businesses.

Cash flow assumptions

The key assumptions used for the value in use calculations are those regarding discount rate, growth rates and expected changes in margins. Changes in prices and direct costs are based on past experience and expectations of future changes in the market. The growth rate used in the calculation reflects the average growth rate experienced by the Group for the industry.

The headroom compared to the carrying value of goodwill as at 31 March 2020 is £414 million (2019: £223 million). From the assessment performed, there are no reasonable sensitivities that result in the recoverable amount being equal to the carrying value of the goodwill attributed to the CGU.

12 INTANGIBLE ASSETS

	Computer software (£'000)	Customer relationships (£'000)	Total (£'000)
Cost			
Balance at 31 March 2018	–	–	–
Additions	266	–	266
Balance at 31 March 2019	266	–	266
Additions	271	–	271
Acquired on acquisition of a subsidiary	–	1,196	1,196
Balance at 31 March 2020	**537**	**1,196**	**1,733**
Accumulated amortisation and impairment			
Balance at 31 March 2018	–	–	–
Charge for the period	(43)	–	(43)
Balance at 31 March 2019	(43)	–	(43)
Charge for the period	(135)	(60)	(195)
Balance at 31 March 2020	**(178)**	**(60)**	**(238)**
Net book value			
As at 31 March 2018	–	–	–
As at 31 March 2019	223	–	223
As at 31 March 2020	**359**	**1,136**	**1,495**

All amortisation charges are included within administrative expenses in the Consolidated Statement of Total Comprehensive Income.

13 PROPERTY, PLANT AND EQUIPMENT

	Computer, office equipment and motor vehicles (£'000)	Fixtures and fittings (£'000)	Right-of-use assets – buildings (£'000)	Total (£'000)
Cost				
Balance at 1 April 2018	435	214	–	649
Additions	72	264	–	336
Balance at 31 March 2019	507	478	–	985
Adoption of IFRS 16	–	–	689	689
Additions	81	213	–	294
Balance at 31 March 2020	**588**	**691**	**689**	**1,968**
Accumulated depreciation and impairment				
Balance at 1 April 2018	(331)	(214)	–	(545)
Charge for the period	(66)	(25)	–	(91)
Balance at 31 March 2019	(397)	(239)	–	(636)
Charge for the period	(73)	(87)	(138)	(298)
Balance at 31 March 2020	**(470)**	**(326)**	**(138)**	**(934)**
Net book value				
As at 1 April 2018	104	–	–	104
As at 31 March 2019	110	239	–	349
As at 31 March 2020	**118**	**365**	**551**	**1,034**

All depreciation charges are included within administrative expenses in the Consolidated Statement of Total Comprehensive Income.

The Group leases buildings and IT equipment. The Group has applied the practical expedient for low value assets and so has not recognised IT equipment within ROU assets. The average lease term is five years. No leases have expired in the current financial period.

All depreciation charges are included within administrative expenses in the Consolidated Statement of Total Comprehensive Income.

Right-of-use assets

	31-Mar 2020 (£'000)
Amounts recognised in profit and loss	
Depreciation on right-of-use assets	**(138)**
Interest expense on lease liabilities	**(22)**
Expense relating to short-term leases	**(94)**
Expense relating to low value assets	**(1)**
	(255)

At 31 March 2020, the Group is committed to £nil for short-term leases.

The total cash outflow for leases amounts to £156,000.

14 TRADE AND OTHER RECEIVABLES

	31-Mar 2020 (£'000)	31-Mar 2019 (£'000)
Trade receivables	**116**	313
Amounts due from related parties	**108**	107
Prepayments and accrued income	**1,948**	1,763
Other receivables	**1,259**	191
Loan notes	**–**	134
	3,431	2,508

All trade receivable amounts are short term. The carrying value is considered a fair approximation of their fair value. The Group applies the IFRS 9 simplified approach to measuring expected credit losses (ECLs) for trade receivables at an amount equal to lifetime ECLs. In line with the Group's historical experience, and after consideration of current credit exposures, the Group does not expect to incur any credit losses and has not recognised any ECLs in the current year (2019: £nil).

The amounts due from related parties are net of provisions. At 31 March 2017, Paradigm Mortgage Services LLP made full provision of £1,251,000 against the recoverability of amounts due from Jargon Free Benefits LLP. Also, as at 31 March 2017, Paradigm Partners Limited made full provision of £350,000 against the recoverability of amounts due from Amber Financial Investments Limited, an entity controlled by Paul Hogarth.

The carrying value of the provisions as at 31 March 2020 was £1,601,000 (2019: £1,601,000). There has been no movement in the carrying value during the year.

Trade receivable amounts are all held in sterling.

15 TRADE AND OTHER PAYABLES

	31-Mar 2020 (£'000)	31-Mar 2019 (£'000)
Trade payables	**275**	414
Amounts due to related parties	**222**	386
Accruals	**2,476**	1,382
Deferred income	**131**	165
Contingent consideration	**344**	–
Other payables	**3,440**	2,174
	6,888	4,521
Less non-current portion:		
Contingent consideration	**(172)**	–
Other payables	**(530)**	–
Total non-current trade and other payables	**(702)**	–
Total current trade and other payables	**6,186**	4,521

The carrying values of trade payables, amounts due to related parties, accruals and deferred income are considered reasonable approximation of fair value.

Trade payable amounts are all held in sterling.

16 DEFERRED TAXATION

	Deferred capital allowances £'000	Share-based payments £'000	Acquisition intangibles £'000	Total £'000
Liability at 1 April 2018	(15)	–	–	(15)
Income statement (charge)/credit	(30)	19	–	(11)
Equity credit	–	130	–	130
Asset/(liability) at 31 March 2019	(45)	149	–	104
Acquisition of subsidiary	–	–	(227)	(227)
Income statement (charge)/credit	(81)	130	11	60
Equity charge	–	(43)	–	(43)
(Liability)/asset at 31 March 2020	**(126)**	**236**	**(216)**	**(106)**

17 FINANCIAL INSTRUMENTS

The Group's treasury activities are designed to provide suitable, flexible funding arrangements to satisfy the Group's requirements. The Group uses financial instruments comprising borrowings, cash and items such as trade receivables and payables that arise directly from its operations. The main risks arising from the Group's financial instruments are interest rate risks, credit risks and liquidity risks. The Board reviews policies for managing each of these risks and they are summarised below.

The Group finances its operations through a combination of cash resource and other borrowings. Short-term flexibility is satisfied by overdraft facilities in Paradigm Partners Limited which are repayable on demand.

Fair value estimation

IFRS 7 requires disclosure of fair value measurements of financial instruments by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

All financial assets are categorised as Loans and receivables and are classified as level 1. All financial liabilities except for contingent consideration are categorised as Financial liabilities measured at amortised cost and are also classified as level 1.

The only financial liabilities measured subsequently at fair value on level 3 fair value measurement represent contingent consideration relating to a business combination. No gain or loss for the year relating to this contingent consideration has been recognised in profit or loss.

Interest rate risk

The Group finances its operations through a combination of retained profits and bank overdrafts. The Group has an exposure to interest rate risk, as the overdraft facility is at an interest rate of 3.2% above the base rate. At 31 March 2020, total borrowings were £nil (2019: £nil).

Credit risk

Credit risk is the risk that a counterparty will cause a financial loss to the Group by failing to discharge its obligation to the Group. The financial instruments are considered to have a low credit risk due to the mitigating procedures in place. The Group manages its exposure to this risk by applying Board approved limits to the amount of credit exposure to any one counterparty, and employs strict minimum credit worthiness criteria as to the choice of counterparty thereby ensuring that there are no significant concentrations. The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The maximum exposure to credit risk for receivables and other financial assets is represented by their carrying amount.

The Group's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at 31 March, as summarised below:

Classes of financial assets – carrying amounts:	**31-Mar 2020 (£'000)**	31-Mar 2019 (£'000)
Cash and cash equivalents	**12,757**	12,192
Trade and other receivables	**3,110**	2,208
	15,867	14,400

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by the Group, and incorporates this information into its credit risk controls. The Group's policy is to deal only with credit worthy counterparties.

The Group's management consider that all of the above financial assets that are not impaired or past due for each of the 31 March reporting dates under review are of good credit quality.

At 31 March the Group had certain trade receivables that had not been settled by the contractual date but were not considered to be impaired. The amounts at 31 March, analysed by the length of time past due, are:

	31-Mar 2020 (£'000)	31-Mar 2019 (£'000)
Not more than 3 months	**75**	241
More than 3 months but not more than 6 months	**19**	72
More than 6 months but not more than 1 year	**17**	–
More than 1 year	**5**	–
Total	**116**	313

Trade receivables consist of a large number of customers within the UK. Based on historical information about customer default rates, management consider the credit quality of trade receivables that are not past due or impaired to be good. The Group has rebutted the presumption in paragraph 5.5.11 of IFRS 9 that credit risk increases significantly when contractual payments are more than 30 days past due.

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

Liquidity risk

Liquidity risk is the risk that companies within the Group will encounter difficulty in meeting obligations associated with financial liabilities. To counter this risk, the Group operates with a high level of interest cover relative to its net asset value and no debt. In addition, it benefits from strong cash flow from its normal trading activities. The Group manages its liquidity needs by monitoring scheduled debt servicing payments for long-term financial liabilities as well as forecast cash inflows and outflows due in day to day business. The data used for analysing these cash flows is consistent with that used in the contractual maturity analysis below.

The totals for each category of financial instruments, measured in accordance with IFRS 9 and IFRS 7 as detailed in the accounting policies to this historical financial information, are as follows:

At 31 March 2020, the Group's non-derivative financial liabilities have contractual maturities (including interest payments where applicable) as summarised below:

	Current		Non-current	
At 31 March 2020	Within 6 months	6 to 12 months	1 to 5 years	Later than 5 years
Trade and other payables	**5,761**	**–**	**–**	**–**
Lease liabilities	**37**	**84**	**530**	**–**
Contingent consideration	**–**	**172**	**172**	**–**
Total	**5,798**	**256**	**702**	**–**

This compares with the maturity of the Group's non-derivative financial liabilities in the previous reporting period as follows:

	Current		Non-current	
At 31 March 2019	Within 6 months	6 to 12 months	1 to 5 years	Later than 5 years
Trade and other payables	4,356	–	–	–
Total	**4,356**	**–**	**–**	**–**

The above amounts reflect the contractual undiscounted cash flows, which may differ to the carrying values of the liabilities at the reporting date.

18 EQUITY

	31-Mar 2020 (number)	31-Mar 2019 (number)
Authorised, called up and fully paid		
£0.20 ordinary shares	**55,907,513**	55,907,513

Each share in TAM plc carries one vote and the right to a dividend.

19 OWN SHARES

The following movements in own shares occurred during the year:

	Number of shares	£'000
At 1 April 2019	–	–
Acquired in the year	413,411	996
At 31 March 2020	**413,411**	**996**

Own shares represent the cost of the Company's own shares, either purchased in the market or issued by the Company, that are held by an employee benefit trust to satisfy future awards under the Group's share-based payment schemes (note 20). 413,411 shares were held in the Employee Benefit Trust at 31 March 2020 (2019: nil).

20 SHARE-BASED PAYMENTS

During the year, a number of share-based payment schemes and share options schemes have been utilised by the Company, described under 20.1 Current schemes, below.

20.1 Current schemes

(i) TAM plc EMI Scheme ("TAM EMI Scheme")

On 7 July 2017 the Group launched an EMI share option scheme relating to shares in TAM plc to enable senior management to participate in the equity of the Company. A total of 3,022,733 options with a weighted average exercise price of £1.89 were granted during the prior period, each exercisable in July 2020.

The scheme was extended on 8 August 2018 and a total of 1,720,138 zero cost options were granted during the year ended 31 March 2019, each exercisable in August 2021. The scheme was further extended on 1 August 2019 and a total of 193,000 zero cost options were granted, each exercisable in August 2022. A total of 4,755,737 options remain outstanding at 31 March 2020, none of which are currently exercisable.

No options were exercised during the period. A total of 68,319 options were forfeited in the period (111,815 options were forfeited in the prior year).

The options vest in July 2020, August 2021 or August 2022 provided certain performance conditions and targets, set prior to grant, have been met. If the performance conditions are not met, the options lapse.

Within the accounts of the Company, the fair value at grant date is estimated using the appropriate models including both Black-Scholes methodology and Monte Carlo modelling methodologies.

	Number of share options granted (number)	Weighted average price (£)
Outstanding at 1 April 2018	3,022,733	1.89
Granted during the period	1,720,138	–
Forfeited during the period	(111,815)	1.89
Outstanding at 31 March 2019	4,631,056	1.19
Exercisable at 31 March 2019	–	–
Outstanding at 1 April 2019	4,631,056	1.19
Granted during the period	193,000	–
Forfeited during the period	(68,319)	0.52
Outstanding at 31 March 2020	**4,755,737**	**1.15**
Exercisable at 31 March 2020	**–**	**–**

(ii) TAM plc Sharesave Scheme ("TAM Sharesave Scheme")

On 7 July 2017, 5 July 2018 and 3 July 2019 the Group launched all employee Sharesave schemes for options over shares in TAM plc, administered by Yorkshire Building Society. Employees are able to save between £10 and £500 per month over a three-year life of each scheme, at which point they each have the option to either acquire shares in the Company, or receive the cash saved.

Over the life of the 2017 Sharesave scheme it is estimated that, based on current saving rates, 197,481 share options will be exercisable at an exercise price of £1.70. Over the life of the 2018 Sharesave scheme it is estimated that, based on current saving rates, 48,688 share options will be exercisable at an exercise price of £1.90. Over the life of the 2019 Sharesave scheme it is estimated that, based on current savings rates, 75,610 share options will be exercisable at an exercise price of £1.79. No options have been exercised or expired in the period and 10,741 options have been forfeited in the period.

Within the accounts of the Company, the fair value at grant date is estimated using the Black-Scholes methodology for 100% of the options. Share price volatility has been estimated using the historical share price volatility of the Company, the expected volatility of the Company's share price over the life of the options and the average volatility applying to a comparable group of listed companies. Key valuation assumptions and the costs recognised in the accounts during the period are noted in 20.2 and 20.3 overleaf respectively.

	Number of share options granted (number)	Weighted average price (£)
Outstanding at 1 April 2018	63,344	1.70
Granted during the period	82,322	1.74
Forfeited during the period	(13,690)	1.71
Outstanding at 31 March 2019	131,976	1.70
Exercisable at 31 March 2019	–	–
Outstanding at 1 April 2019	131,976	1.70
Granted during the period	102,493	1.75
Forfeited during the period	(10,741)	1.85
Outstanding at 31 March 2020	**223,728**	**1.73**
Exercisable at 31 March 2020	**26,176**	**1.70**

20.2 Valuation assumptions

Assumptions used in the option valuation models to determine the fair value of options at the date of grant were as follows:

	EMI Scheme			Sharesave Scheme		
	2019	2018	2017	2019	2018	2017
Share price at grant (£)	2.12	2.40	1.89	2.14	2.34	1.89
Exercise price (£)	0.00	0.00	1.70	1.79	1.90	1.70
Expected volatility (%)	30.44	28.48	26.00	30.44	28.48	26.00
Expected life (years)	3.00	3.00	3.00	3.00	3.00	3.00
Risk free rate (%)	0.35	0.81	0.66	0.35	0.81	0.66
Expected dividend yield (%)	3.96	2.75	4.50	3.96	2.75	4.50

20.3 IFRS 2 Share-based option costs

	31-Mar 2020 (£'000)	31-Mar 2019 (£'000)
TAM EMI Scheme	**84**	839
TAM Sharesave Scheme	**24**	35
	108	874

21 BUSINESS COMBINATION

On 30 September 2019, the Group acquired 100% of the issued share capital of Sinfonia Asset Management Limited ("Sinfonia"), obtaining control of Sinfonia. Sinfonia is an administration services company which facilitates the sale of investment products. Sinfonia holds funds within the IFSL Sinfonia Open-Ended Investment Companies. Sinfonia was acquired in order to complement Tatton's existing fund range and give IFAs' clients further access to a range of investments balanced to reflect a particular risk profile.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed upon acquisition of Sinfonia are set out in the table below:

	£'000
Identifiable intangible assets	1,196
Financial assets	54
Financial liabilities	(13)
Deferred tax liability	(227)
Total identifiable assets	1,010
Goodwill	1,337
Total consideration	**2,347**
Satisfied by:	
Cash	2,003
Contingent consideration arrangement	344
Total consideration transferred	**2,347**
Net cash outflow arising on acquisition:	
Cash consideration	2,003
Less: cash and cash equivalent balance acquired	(1)
Net cash outflow	**2,002**

The fair value of the financial assets includes accrued income and prepayments with a fair value of £54,000. The best estimate at acquisition date of the contractual cash flows not to be collected is £nil.

The fair value of Sinfonia's client relationship intangible assets has been measured using a multi-period excess earnings method. The model uses estimates of client longevity and the level of activity driving commission income to derive a forecast series of cash flows, which are discounted to a present value to determine the fair value of the client relationships acquired. The useful economic life of the client relationships has been determined to be ten years.

The goodwill of £1,337,000 arising from the acquisition consists of future synergies and future income expected to be generated from the funds. None of the goodwill is expected to be deductible for income tax purposes.
The contingent consideration arrangement requires the value of assets held in the funds to meet specific criteria agreed between the parties. The potential undiscounted amount of all future payments that the Group could be required to make under the contingent consideration arrangement is between £nil and £690,000.

The fair value of the contingent consideration arrangement of £344,000 was estimated by calculating the expected future value of assets held in the Sinfonia funds. The liability of £344,000 has been recognised in other payables in the Consolidated Statement of Financial Position.

Acquisition-related costs (included in administrative expenses and separately disclosed in the Consolidated Statement of Total Comprehensive Income) amount to £97,000.

Sinfonia contributed £151,000 to revenue and £81,000 to the Group's profit for the period between the date of acquisition and the reporting date.

22 RELATED PARTY TRANSACTIONS

Ultimate controlling party
The Directors consider there to be no ultimate controlling party.

Relationships

The Group has trading relationships with the following entities in which Paul Hogarth, a Director, has a beneficial interest:

Entity	Nature of transactions
Amber Financial Investments Limited	The Group provides discretionary fund management services, as well as accounting and administration services.
Jargon Free Benefits LLP	The Group provides accounting and administration services.
Paradigm Investment Management LLP	The Group incurs finance charges.
Perspective Financial Group Limited	The Group provides discretionary fund management services and compliance advisory services.
Suffolk Life Pensions Limited	The Group pays lease rental payments on an office building held in a pension fund by Paul Hogarth.

From 20 December 2019 Perspective Financial Group Limited is no longer a related party. The transactions shown below are those which took place in the financial period during which the company was a related party. The balance receivable/payable is the year end balance.

Related party balances

		2020		2019	
	Terms and conditions	**Value of income/ (cost) (£'000)**	**Balance receivable/(payable) (£'000)**	Value of income/ (cost) (£'000)	Balance receivable/ (payable) (£'000)
Amber Financial Investments Limited	Payable within 30 days	**297**	**25**	239	(42)
Jargon Free Benefits LLP	Repayment on demand	**15**	**66**	24	43
Paradigm Management Partners LLP	Repayment on demand	**1**	**5**	–	4
Paradigm Investment Management LLP	Repayment on demand	**(5)**	**(234)**	(11)	(13)
Perspective Financial Group Limited	Payable within 30 days	**243**	**11**	369	72
Suffolk Life Pensions Limited	Payable in advance	**(57)**	**9**	(56)	9
Hermitage Holdings (Wilmslow) Limited	Repayment on demand	**4**	**4**	–	–

Balances with related parties are non-interest bearing.

Key management personnel remuneration

Key management includes Executive and Non-Executive Directors. The compensation paid or payable to key management personnel is as disclosed in note 10.

23 ALTERNATIVE PERFORMANCE MEASURES ("APMS")

APM	Closest equivalent measure	Reconciling items to their statutory measure	Definition and purpose
Adjusted Operating Profit before separately disclosed items	Operating profit	Exceptional items, share-based payments and amortisation of client relationship intangibles. See note 6.	An important measure where exceptional items distort the understanding of the operating performance of the business. Allows comparability between periods. See also note 2.24.
Adjusted Profit before tax; before separately disclosed items	Profit before tax	Exceptional items, share-based payments and amortisation of client relationship intangibles. See note 6.	An important measure where exceptional items distort the understanding of the operating performance of the business. Allows comparability between periods. See also note 2.24
Adjusted earnings per share – Basic	Earnings per share – Basic	Exceptional items, share-based payments and amortisation of client relationship intangibles and the tax thereon. See note 9.	An important measure where exceptional items distort the understanding of the operating performance of the business. Allows comparability between periods. See also note 2.24.
Adjusted earnings per share – Diluted	Earnings per share – Diluted	Exceptional items, share-based payments and amortisation of client relationship intangibles and the tax thereon. The dilutive shares for this measure assume that all contingently issuable shares will fully vest. See note 9.	An important measure where exceptional items distort the understanding of the operating performance of the business. Allows comparability between periods. See also note 2.24.
Net cash generated from operations before separately disclosed items	Net cash generated from operations	Exceptional items, share-based payments and amortisation of client relationship intangibles. See note 6.	Net cash generated from operations before exceptional costs. To show underlying cash performance. See also note 2.24.

Other measures

APM	Closest equivalent measure	Reconciling items to their statutory measure	Definition and purpose
Tatton – Assets Under Management ("AUM")	None	Not applicable	AUM is representative of the customer assets and is a measure of the value of the customer base. Movements in this base are an indication of performance in the year and growth of the business to generate revenues going forward.
Paradigm Consulting members and growth	None	Not applicable	Alternative growth measure to revenue, giving an operational view of growth.
Paradigm Mortgages lending, member firms and growth	None	Not applicable	Alternative growth measure to revenue, giving an operational view of growth.
Dividend cover	None	Not applicable	Dividend cover (being the ratio of diluted earnings per share before exceptional items and share-based charges) is 1.9 times, demonstrating ability to pay.

24 POST BALANCE SHEET EVENT

There were no material post balance sheet events.

25 CAPITAL COMMITMENTS

At 31 March 2020, the Directors confirmed there were no capital commitments (2019: £112,000) for capital improvements.

26 CONTINGENT LIABILITIES

At 31 March 2020, the Directors confirmed there were no contingent liabilities (2019: none).